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Board of Governors of the Federal Reserve System

67th Annual Report 1980

Board of Governors of the Federal Reserve System

I

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, D.C., May 15, 1981

THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES

Pursuant to the requirements of section 10 of the Federal Reserve Act, I am pleased to submit the Sixty-Seventh Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during calendar year 1980.

Sincerely,

Paul A. Volcker, *Chairman*

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Part 1

Monetary Policy and the U.S. Economy in 1980

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Introduction

The U.S. economy in 1980 experienced wide swings in output and employment and a continued high rate of inflation. An exceptionally sharp but unusually short recession in the first half of the year was followed by a rebound during the second half. On balance over the year, the gross national product was little changed in real terms, after a slight increase in 1979. Payroll employment fell with the contraction in production in the first half and despite a subsequent increase was only slightly higher at year-end than at the end of 1979; the unemployment rate rose sharply through May and then changed little.

Large increases in prices of energy in the first half of 1980 and of food in the second half contributed substantially to inflationary pressures. However, beyond these special factors, continuing poor productivity performance and rapidly rising compensation combined to maintain an underlying trend of unit labor costs—a key element in pricing—of more than 9 percent per year. At year-end, continued strong wage demands were in prospect and a renewed surge in prices of energy and foods seemed likely.

Progress toward price stability and reduced inflationary expectations remains a fundamental precondition for sustained and balanced economic growth. Consequently, throughout 1980 monetary policy concentrated on holding growth of money and credit to rates consistent with a damping of inflationary pressures. The Federal Reserve's actions clearly did impose considerable restraint on the aggregate demand for goods and services, even though the growth rates of the monetary aggregates over the four quarters of 1980 were generally near or somewhat above the upper ends of the ranges established by the Federal Open Market Committee early in the year.

Over the course of 1980, the growth of money and credit fluctuated widely, responding to sudden, sharp changes in economic conditions, to the application of selective credit restraints in the spring, and to variations in public expectations about inflation. Interest rates also showed large swings. They moved to record levels in the first quarter when pressures on credit markets associated with Federal Reserve efforts to prevent excessive monetary expansion were combined with heightened fears of accelerating inflation. They then fell sharply in the spring as a steep decline in economic activity and the imposition of the credit restraint program cut into the demand for money and credit. Over the second half of the year, interest rates again trended upward as the System attempted to moderate monetary expansion in the face of a surprisingly swift economic recovery and continued brisk inflation. The change in operating procedures that occurred in October 1979, which shifted the day-to-day focus of System open market operations from the federal funds rate to reserves, may have contributed to a prompter response of market interest rates to emerging shortfalls or overshoots in monetary expansion; however, the large swings in rates last year primarily reflected the unstable economic environment.

The Economy in 1980

Economic activity fluctuated markedly over the four quarters of 1980 but on balance exhibited no growth over the year. At the same time, inflationary pressures remained intense, with most broad measures of prices and wages rising at least as fast as in 1979.[1] Real gross national product (GNP) grew moderately in the first quarter and then plummeted at an annual rate of 10 percent in the second quarter—the largest one-quarter decrease in the postwar period. The downturn bottomed out quickly, however, and a brisk rebound over the second half brought output to about the level of late 1979.

Monetary and fiscal policies in 1980 continued to be directed toward damping inflationary pressures. During 1979 and into the opening months of 1980, private demands for goods and services nevertheless remained relatively buoyant in the face of high nominal interest rates as the public remained skeptical about the prospect for containing inflation. This attitude, coupled with a sharp hike in the price of imported oil and concern that increased defense spending would result in wider budget deficits, contributed to a heightening of inflationary expectations and substantial speculation in commodity markets in the early part of 1980. Against this backdrop, President Carter announced a multifaceted anti-inflation program on March 14. The President authorized use of the extraordinary powers of the Credit Control Act of 1969, and the Board of Governors responded with a set of temporary measures to restrain the growth of credit.

Although the weakening was not fully apparent at the time, activity in the consumer and housing sectors had already turned down by early 1980. The falloff in these demands reflected primarily the high cost of credit and a longer-term deterioration in growth of real disposable income and household financial positions. The decline probably was exacerbated by the curtailment of lending and the change in borrowing attitudes that accompanied the special credit restraint program. After credit conditions eased early in the summer and the special credit restraints were lifted, personal consumption expenditures and housing starts generally reattained the levels of early 1980.

In the business sector, real outlays for fixed capital fell substantially over the year, largely in response to the weakness in final sales and reduced capacity utilization rates. As in most of the preceding economic expansion, businesses continued to maintain tight control over inventories. Still, the severity of the decline in final sales in the second quarter led to some involuntary accumulation and forced subsequent liquidations during the second half.

The foreign sector provided support to the economy in 1980. Real exports of goods and services rose, reflecting in part the continuing effects of the depreciation of the dollar

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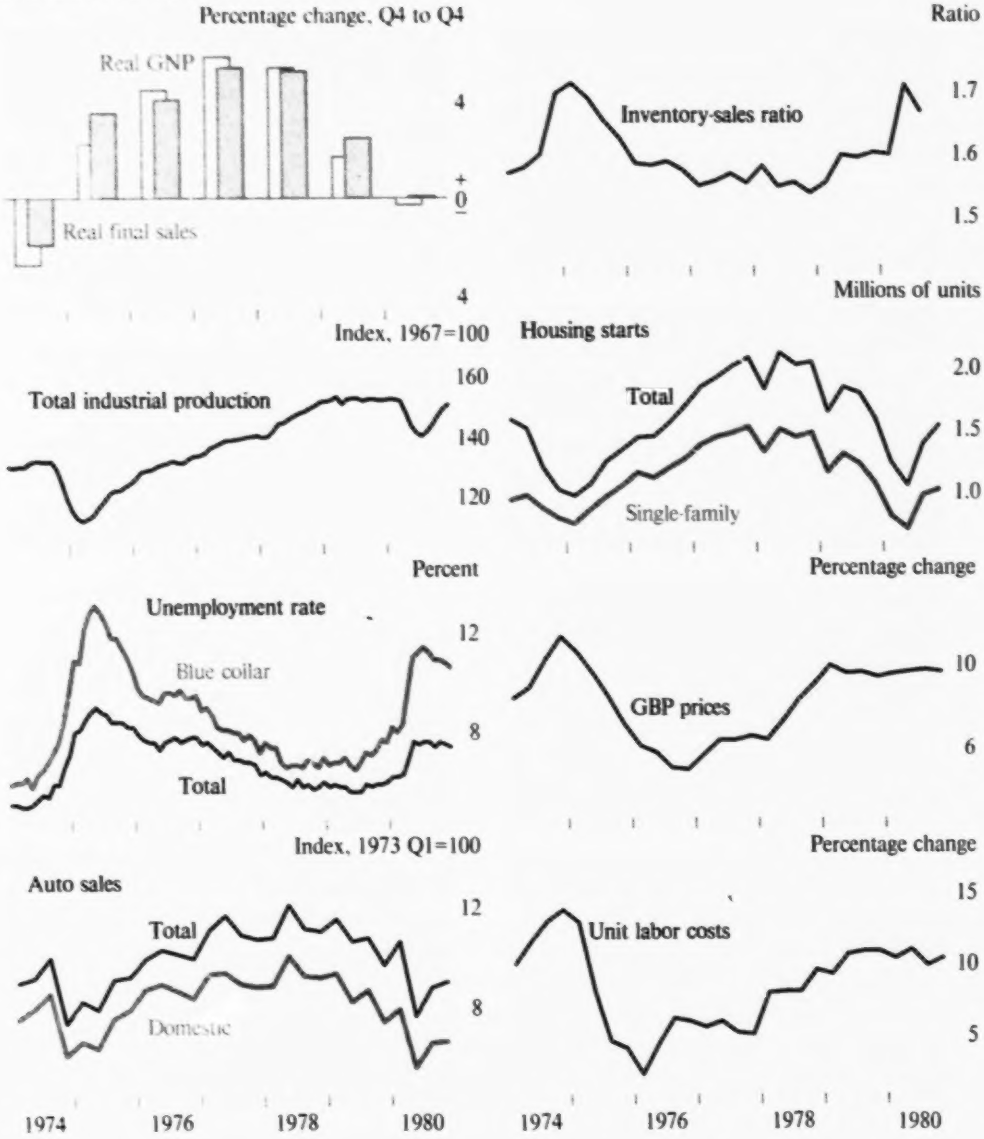
[1] Unless otherwise indicated, annual figures represent changes from the fourth quarter of 1979 to the fourth quarter of 1980.

Indicators of Economic Performance



All data are seasonally adjusted at annual rates.

The industrial production index (monthly data) is Federal Reserve data; the unemployment rate (monthly data) and the change in nonfarm unit labor costs are U.S. Department of Labor data; auto sales are from the Motor Vehicle Manufacturers Association. All other data are from the U.S. Department of Commerce.

Real GNP and real final sales are in terms of 1972 dollars.

The inventory-sales ratio is based on real (1972 dollars) manufacturing and total trade sales and inventories.

GBP prices are measured by the fixed-weight price index for gross domestic business product (1972 weights).

in 1977-78. The volume of imports of goods and services declined after the first quarter in response to the weakening in domestic activity. Oil imports in particular were down sharply as consumption was reduced by the rising price of petroleum and weakness in economic activity.

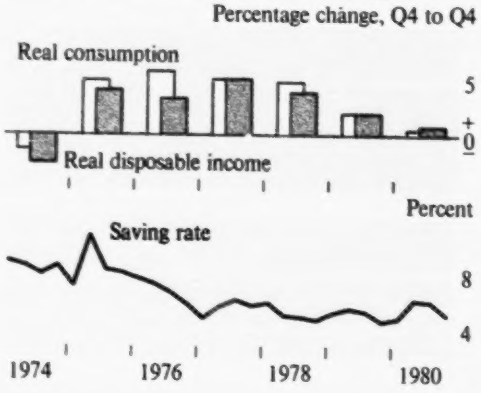
In spite of the slower growth of overall activity in 1979 and the reduction in aggregate demand during the first half of 1980, inflationary pressures remained strong last year. Month-to-month movements in prices often were dominated by developments in food and energy markets and in costs of homeownership. But, more fundamentally, the key determinants of underlying inflationary trends worsened. A further decline in productivity, together with continued rapid rates of wage increase, pushed up unit labor costs, thus adding to price pressures. In addition, the effects of sharp hikes in the price of imported crude oil since 1978 spilled over to other goods and services. The fixed-weight price index for gross domestic business product, a broad measure of inflation, rose about 9¾ percent over the year, slightly more than in 1979, while increases in consumer and producer prices, at 12½ and 12 percent respectively, were a little lower than in the previous year.

Household Sector

Spending by the household sector weakened considerably in early 1980. The sharpness of the curtailment probably was related mainly to the tightening of credit conditions and the impact of the credit restraint program on consumer attitudes. However, other factors also played a role. In particular, a progressive deterioration of household financial positions in previous years had made American households increasingly vulnerable to income and financial shocks. Around 1977, households began to save a distinctly smaller fraction of disposable income than previously and to borrow heavily to finance their outlays, thereby pushing debt burdens to historically high levels. Moreover, growth of real disposable income turned sluggish in early 1979 and income prospects became less optimistic, while sharp increases in the prices of food and energy began to cut into the discretionary portions of family budgets.

Reflecting these developments, consumer spending in real terms fell at a 4½ percent annual rate over the first half of 1980. As in past recessions, outlays for more discretionary purchases were particularly affected. Purchases of new cars tumbled to an annual rate of 7¾ million units in the second quarter, 2 million below the pace in the fourth quarter of 1979, as demand for larger-size domestic models plunged. Sales of furniture and appliances also fell sharply, in part as a result of the drop in home

Income, Consumption, and Saving



Based on U.S. Department of Commerce data, seasonally adjusted at annual rates. Real consumption and real disposable income are in terms of 1972 dollars.

sales. Moreover, efforts to conserve on energy usage held down real outlays for nondurable goods and services, which were about unchanged over the first half.

Early in the summer, an easing of general credit conditions and the termination of the special restraint measures helped to foster a revival of consumer outlays, and spending in real terms rose at an annual rate of 6 percent over the second half. Income prospects and consumer confidence also improved, and households were able to rebuild savings somewhat as well.

Sales of domestic autos picked up from the depressed second-quarter level, although steep price increases on 1981 models and higher financing costs apparently deterred buyers in the autumn. For the year as a whole, sales of domestic autos totaled 6.6 million units, the lowest level in 20 years; sales of foreign cars averaged 2.4 million, about the same as in 1979, and accounted for a record one-fourth of the total sold.

Real residential construction expenditures fell 13 percent over the year, after a decline of 6 percent during 1979. Movements in housing activity within the year were heavily influenced by the course of mortgage interest rates. Total private housing starts dropped from an already reduced pace of 1.6 million units in the fourth quarter of 1979 to 1.1 million units in the second quarter of 1980 as the average interest rate on new mortgage commitments rose to more than 16 percent. Starts recovered with the abrupt easing of credit conditions early in the summer. By September, they had approached their late 1979 level, and they remained at that level through the fall despite the return of mortgage rates to the range of 14 to 15 percent. For the year as a whole, starts totaled 1.3 million units, the lowest since 1975.

In contrast to previous cyclical downturns, the weakening of housing activity in 1980 was most evident in the single-family sector. Although demographic trends remained favorable, the increased cost of home purchase associated with higher house prices and the rapid rise in mortgage interest rates cut deeply into demand for new homes. Single-family starts fell to 850,000 units in 1980, compared with 1.2 million in 1979. The rise in home prices slowed substantially relative to 1978 and 1979; even so, the average monthly payment on a new home continued to increase faster than household income. These higher debt-service costs constrained the ability of many homebuyers to qualify for traditional mortgages and contributed to the widening use of innovative financial instruments, such as graduated-payment and variable-rate mortgages.

In the multifamily sector, starts totaled 440,000 units, compared with 550,000 units in 1979. This sector was apparently more resilient because of a sustained demand for condominium units as well as the presence of the section 8 subsidy program administered by the Department of Housing and Urban Development, which supported around 100,000 rental units. New building activity weakened significantly in the private rental market as rent increases generally continued to lag behind rises in energy costs and other operating expenses.

Business Sector

Business fixed investment fell 4 percent in real terms during 1980, after several years of strong advances. The weakness in capital spending can be linked to the emergence of a sizable margin of unutilized plant and equipment as a result of the slow growth of final sales over 1979 and their contraction in early 1980. In addition, the business sector came under increasing financial pressure in 1980. Long-term interest rates were historically high, corporate operating profits fell well below year-earlier levels, and balance-sheet positions continued to deteriorate.

The decline in real outlays was sharpest in the construction area. Spending on nonresidential structures fell 6 percent over the year, after an average rise of about 11 percent in the previous two years. Cutbacks were especially severe in the industrial building category, while increases in petroleum drilling provided some offset. Business purchases of new equipment fell 4 percent in real terms over the year, led by declines in purchases of trucks and cars. On an industry basis, capital spending gains slowed markedly in most of the cyclically sensitive manufacturing groups, particularly nonelectrical machinery, stone, clay, and glass, and rubber; outlays by motor vehicle manufacturers, however, were boosted by retooling for the new small cars. Energy and high-technology industries generally continued to exhibit considerable strength in 1980.

According to currently available indicators, business fixed investment is likely to remain sluggish in 1981, especially outside the defense and energy-related sectors. Although orders and contracts for plant and equipment in real terms rose during the second half of 1980, in the fourth quarter they still were below year-earlier levels. Longer-term commitments outside the petroleum industry, such as capital appropriations, also were running below year-earlier levels. In addition, surveys of plans for plant and equipment spending taken toward the end of 1980 and in early 1981 suggested little if any advance in real outlays for calendar year 1981.

In general, firms attempted to keep inventories lean in 1980 as they adjusted to wide swings in final sales against a backdrop of high carrying costs. Total business inventories in constant dollars were about unchanged over the first half of the year. However, the sharp drop in final sales pushed inventory-to-sales ratios up sharply, and by May the ratio for manufacturing and trade had nearly reached the peak attained in the 1973–75 cycle. Subsequently, real stocks were liquidated as final sales picked up and adjustments to production helped reduce overhangs.

Government Sector

Real purchases of goods and services at all levels of government increased about 1½ percent over 1980, about the same as for each of the previous two years. In 1980, however, growth was concentrated in federal purchases, particularly for national defense. Purchases by state and local governments remained unchanged, on balance, over the year.

The budget deficit for the federal government on a national income accounts basis rose from about $25 billion in the fourth quarter of 1979 to around $70 billion in the final quarter of 1980. The widening of the deficit largely reflected the automatic stabilizers of the budget. Growth of tax receipts, at about 11½ percent, was roughly the same as in 1979, but much of the advance in 1980 stemmed from the imposition of the windfall profits tax on oil company revenues.

Increases in personal income taxes and social insurance contributions slowed markedly, largely reflecting the patterns in employment and incomes, and corporate profits tax accruals declined. At the same time, transfer payments rose substantially as the surge in joblessness raised outlays for unemployment benefits and other income security programs; in addition, social security beneficiaries received a 14¼ percent cost-of-living raise in July.

Nonetheless, increased federal purchases also contributed significantly to the expanded budget deficit, largely as a result of higher defense spending. National defense purchases rose 5 percent in real terms, while nondefense purchases were up about 2 percent. Grants to states and localities rose 8 percent in nominal terms, and in real terms probably fell somewhat. A further phasing-down of the local public works and public employment programs accounted for most of the slowing.

In contrast to the federal sector, state and local governments were relatively unaffected by the recession last year. The growth of total revenues, at 10 percent, was slightly higher than the advances in the previous two years. On the spending side, growth of outlays already had begun to slow in response to longer-term demographic factors and public sentiment to limit spending. In 1980, this trend was reinforced by stringent financial conditions that led to the postponement or cancellation of several bond issues early in the year and contributed to a substantial decline in construction outlays. Also, employment rose only 125,000, the smallest gain in three decades, as enrollments in public service employment programs dropped and many governments allowed attrition to reduce their payrolls. The sector's operating budget (total balance net of social insurance funds) was close to balance for most of the year, as it had been since early 1979.

Labor Market Developments

Five years of continuous expansion in employment were interrupted in 1980, as firms responded to the sharp declines in sales during the first half by cutting their work forces and shortening workweeks. Between February and July the number of workers on payrolls of nonfarm establishments fell 1¼ million. However, the contraction was short lived and was followed by a substantial and widely based recovery in employment in the second half of 1980.

Much of the early cutback in employment was associated with weak auto sales and depressed housing activity. By midyear, about one-seventh of those employed in transportation equipment and primary and fabricated metals industries had lost their jobs; about a third of the total hourly auto workers were on indefinite layoff. In addition, employment in contract construction declined by almost 337,000 between February and July. Although the ensuing rebound in consumer demand led to sizable recalls in these sectors, by year-end payroll employment in manufacturing and construction had regained only about one-half of the cumulative job losses since their peaks. The economic contraction also spilled over into private service-producing industries, holding the employment gain in that sector to the smallest in five years.

The contraction of labor demand in the first half of 1980 led to a jump in the unemployment rate from just under 6 percent at the end of 1979 to 7½ percent by May, where it remained for the balance of the year. The biggest increases in unemployment in the spring occurred among adult men, and reflected the concentration of job losses in blue-collar occupations; by mid-1980 the unemployment rate for adult males was almost as high as at the trough of the 1973–75 recession. The deterioration in job opportunities interrupted a five-year climb in the labor force participation rate. Even the participation rate for women, which has contributed most significantly to the expansion of the labor force in the postwar period, edged up only slightly over the year.

The cyclical deterioration in productivity continued into the first half of 1980 as rapid declines in output outpaced adjustments in the work force. However, the growth in productivity that accompanied the advance in production during the second half of the year just about offset the earlier losses, and output per hour in the nonfarm business sector was about unchanged in 1980, after a 1 percent decline over 1979. The trend rate of productivity growth apparently continued at the slow pace that has characterized most of the decade, compounding the effects of large wage increases on unit labor costs.

Despite the slack in labor markets, wage rates accelerated in 1980 as workers sought to make up for reductions in real wages that had occurred in the wake of sharp energy price increases in 1979. In the private nonfarm business sector, wage rates—as measured by the average hourly earnings index—rose at a rate of more than 9½ percent over the four quarters of the year, compared with an 8 percent increase in 1979. This acceleration was most pronounced in the manufacturing sector, in which cost-of-living provisions are most prevalent, but almost all other major sectors also posted larger increases. Hourly compensation, which includes employer contributions for social insurance and the cost of fringe benefits, rose 10 percent in 1980, about ½ percentage point faster than during 1979.

The acceleration in hourly compensation coupled with the continuing slump in productivity pushed unit labor costs for the nonfarm business sector up more than 10 percent in 1980, compared with 11 percent during 1979. With the rapid price increases in 1980 carrying over into forthcoming wage negotiations and with new boosts in payroll taxes and in the minimum wage, compensation is likely to increase rapidly in the coming year.

Prices

Inflationary pressures continued to permeate the economy in 1980, in spite of a second year of sluggish growth in aggregate demand. The fixed-weight price index for gross domestic business product rose slightly more than 9½ percent over the four quarters of 1980, about ¼ percentage point faster than in 1979. The price indexes for consumer and producer finished goods advanced about 12½ and 12 percent respectively last year. Their growth was a little less than in 1979, although volatile movements in mortgage rates and in home prices had an especially large impact on monthly fluctuations in the consumer price index (CPI).

Movements in food and energy prices affected the course of inflation in 1980, although pressures in these two sectors emerged at different times during the year. In the first half, retail energy prices rose at an annual rate of more than 30 percent, while food prices, which had been decelerating since the beginning of 1979, slowed even further, to an annual rate of less than 5 percent. Then in the second half, energy prices rose at a pace below the inflation rate, while food prices rose more than 14 percent at an annual rate.

The surge in energy prices early in the year resulted from higher prices of imported crude oil and the progressive decontrol of prices for domestic crude oil. By the second quarter, however, prices for most energy commodities had stabilized, as inventories rose with weakened demand. These large stocks helped to cushion the impact of sharp production curtailments by Iraq and Iran during the autumn and of the continuing phaseout of price controls on domestic crude oil; by midyear more than two-thirds of all crude petroleum supplies were selling at prices at or near world levels. The indirect passthrough of sharp increases in the price of imported crude oil since 1979 was evident in the rapid increases in prices for some intermediate materials early in the year, particularly for plastics and rubber products.

Retail food prices accelerated sharply in the second half of 1980, resulting in a cumulative increase of more than 10 percent over the four quarters of the year. Meat prices increased rapidly in the second half as pork and poultry production fell off, in part because of severe drought conditions in the Midwest and South. The drought added to the upward pressures for other farm products as well. Crop price increases were especially large, and food prices are expected to rise rapidly in 1981 as the effects of these higher crop prices feed through to the retail level.

While price increases for energy and to a lesser extent for food exacerbated the overall inflation rate in 1980, the strong labor cost pressures experienced over the year also sustained an underlying momentum in price pressures for most sectors. One measure of this underlying trend, the fixed-weight price index for personal consumption expenditures excluding food and energy, rose more than 9¼ percent over the four quarters of 1980, up from a pace of 7¼ percent in 1979; part of the acceleration was due to the passthrough of higher petroleum costs.

An inflationary psychology was evident in the flurry of speculative activity early in the year, particularly for gold and silver. Moreover, speculation spilled over from the precious metals to several industrial commodities, especially copper. By early spring, speculation in commodities markets had subsided in the face of rapidly rising interest rates and declining aggregate demand, but it picked up again as the economy recovered. Sharp declines for prices of certain sensitive industrial commodities—particularly steel, aluminum, and lumber and wood products—had a moderating influence on producer prices in the first half of 1980. The Department of Labor's measure of spot market prices fell 13 percent from the peak in February to the trough in June of 1980. In addition, producer prices of crude materials excluding food and energy fell almost 10 percent during the same period. With the rebound in activity in the second half of the year, prices of industrial commodities regained most of the earlier losses, and by year-end, industrial raw materials prices in the producer price index were 10½ percent higher than a year earlier.

Monetary Policy and Financial Markets

Monetary policy in 1980 continued to aim for expansion of money and credit consistent with progress toward a reduction in inflationary pressures. Monthly and quarterly movements in the money stock were unusually volatile over the year, in large part because of the wide swings in aggregate economic activity. Nonetheless, growth rates of the monetary aggregates for the year as a whole were close to the ranges established by the Federal Open Market Committee (FOMC) for 1980.

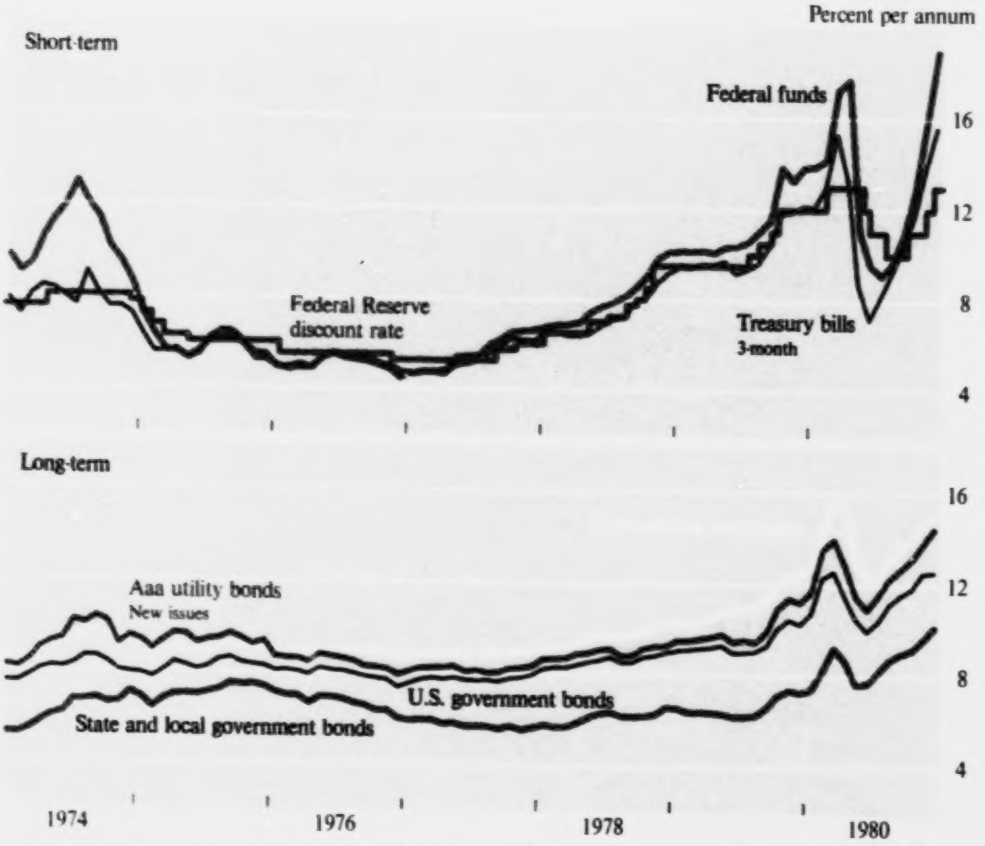
Credit flows also varied considerably during the year, in response not only to changing economic activity but also to special policies affecting credit growth. On balance they declined somewhat from 1979; although credit demands by governments rose, both businesses and households reduced their credit usage last year in an environment of credit costs generally well above those of 1979.

Interest rates fluctuated over an extraordinarily wide range last year, reflecting the impact of sharp movements in economic activity and in prices on demands for money and credit, as well as shifting expectations about the economic and financial outlook. Early in 1980, short-term rates rose to new peaks as accelerating growth in money and bank credit created demands for reserves in excess of the amounts consistent with the FOMC's targeted ranges for growth in the aggregates. The movement in short-term rates intensified pressures on long-term rates that had accompanied a worsening of inflation expectations. In March, turbulence in bond and commodity markets increased, and a special credit restraint program was initiated to supplement traditional monetary policy measures.

The imposition of the credit restraint program and the unprecedented contraction in real economic activity contributed to a substantial falloff in money and credit flows in the second quarter. Interest rates plunged from peaks reached around the end of March, as the narrow monetary aggregates, M-1A and M-1B, dropped in the early spring to below their designated ranges. In view of unusual factors reducing the public's demand for transaction balances and the greater relative strength in the broader aggregates, M-2 and M-3, the Federal Reserve decided against pursuing policies that would quickly return the narrowly defined monetary aggregates to their ranges for fear of aggravating inflationary pressures. As a result, M-1A and M-1B remained below the System's announced targets for several months, while the broader aggregates remained within target ranges in the first half of the year.

With the decline in the cost of credit to the lowest level in two years and the phasing-out of the special credit restraint program in early summer, economic activity began expanding again. As inflationary pressures also intensified, demands for money and credit strengthened and interest rates rose sharply through the second half of the year; the monetary aggregates expanded above target ranges, and the provision of nonbor-

Interest Rates



Monthly averages except for Federal Reserve discount rate and conventional mortgages (based on quotations for one day each month). Yields: U.S. Treasury bills, market yields on three-month issues; prime commercial paper, dealer offering rates; conventional mortgages, rates on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from U.S. Department of Housing and Urban Development; Aaa utility bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to Aaa basis; U.S. government bonds, market yields adjusted to 20-year constant maturity by U.S. Treasury; state and local government bonds (20 issues, mixed quality), *Bond Buyer*.

rowed reserves fell progressively short of the requirements of depository institutions. Most interest rates once again reached record levels in December, and monetary growth slowed in the final months of the year.

Monetary Aggregates and Interest Rates

The monetary aggregates, particularly the transaction-related measures M-1A and M-1B, exhibited unusual volatility during 1980, as the destabilizing effects on money demand of sharp quarterly swings in the pace of economic activity were exacerbated by atypical movements in the aggregates relative to income and interest rates during the year. Although the ranges established for the aggregates by the FOMC implied some slowdown in 1980 from the growth rates recorded in 1979, the considerable strength that developed in the second half brought expansion in the narrow aggregates to near the pace of a year earlier. Overall growth in M-1A and M-1B, however, was maintained well below that of nominal GNP, as monetary policy continued to exert a substantially restrictive influence. Growth in M-2 picked up a bit in 1980, while M-3 increased at about the same pace as in 1979. Bank credit expansion over 1980, also exceptionally volatile, was considerably below the pace of 1979 and, for the year, was near the midpoint of its range.

Long-term interest rates soared to record levels early in 1980. Inflationary fears were generated by large increases in major price indexes, by indications of further increases in the federal budget deficit, and by unfavorable international political developments. Borrowing in anticipa-

Reserves and Monetary Aggregates

Based on seasonally adjusted data unless otherwise noted, in percent[1]

Item	1978	1979	1980	1979	1980			
				Q4	Q1	Q2	Q3	Q4
Member bank reserves[2]								
Total	6.2	2.6	7.1	11.6	4.3	.4	6.7	16.5
Nonborrowed	6.3	.3	7.8	5.1	3.3	7.4	12.4	7.2
Required	6.3	2.4	6.8	10.4	5.1	.7	5.8	15.2
Monetary base[3]	9.2	7.8	8.8	9.3	7.8	5.2	9.9	11.2
Concepts of money[4]								
M-1A	7.4	5.0	5.0	4.5	4.6	−4.4	11.5	8.1
M-1B	8.2	7.7	7.3	4.9	5.8	−2.6	14.6	10.8
M-2	8.4	9.0	9.8	7.2	7.3	5.6	16.0	9.1
M-3	11.3	9.8	9.9	9.1	8.0	5.8	13.0	11.6
Nontransaction components of M-2								
Total (M-2 minus M-1B)	8.5	9.4	10.7	7.9	7.9	8.3	16.4	8.5
Small time deposits	16.2	23.1	15.3	25.8	17.4	23.7	1.0	16.3
Savings deposits	−.5	−11.9	−4.6	−21.4	−20.3	−23.3	27.8	−.9
Money market mutual funds shares (n.s.a.)	163.9	324.2	90.3	120.0	151.9	82.7	75.7	−15.5
Overnight RPs and overnight Eurodollar deposits (n.s.a.)	25.4	17.2	21.8	−33.1	9.0	−57.4	135.6	15.4
Memo (change in billions of dollars)								
Managed liabilities at commercial banks	77.8	57.7	12.4	10.5	11.3	−3.3	−12.5	17.0
Large time deposits, gross	50.4	19.6	22.0	10.7	6.3	6.2	−4.3	13.8
Nondeposit funds	27.4	38.1	−9.6	−.2	5.0	−9.5	−8.2	3.2
Net due to foreign related institutions	6.9	25.1	−23.4	0	−2.3	−8.6	−11.5	−1.0
Other[5]	20.5	13.0	13.8	−.2	7.3	−.9	3.2	4.2
U.S. government deposits at commercial banks	3.3	1.5	.6	−4.0	1.6	−1.6	2.9	−2.3

[1] Changes are calculated from the average amounts outstanding in each quarter.

[2] Annual rates of change in reserve measures have been adjusted for regulatory changes in reserve requirements.

[3] Consists of total reserves (member bank reserve balances in the current week plus vault cash held two weeks earlier), currency in circulation (currency outside the U.S. Treasury, Federal Reserve Banks, and the vaults of commercial banks), and vault cash of nonmember banks.

[4] M-1A is currency plus private demand deposits net of deposits due to foreign commercial banks and official institutions. M-1B is M-1A plus other checkable deposits (negotiable order of withdrawal accounts, accounts subject to automatic transfer service, credit union share draft balances, and demand deposits at mutual savings banks). M-2 is M-1B plus overnight repurchase agreements (RPs) issued by commercial banks, overnight Eurodollar deposits held by U.S. nonbank residents at Caribbean branches of U.S. banks, money market mutual fund shares, and savings and small time deposits at all depository institutions. M-3 is M-2 plus large time deposits at all depository institutions and term RPs issued by commercial banks and savings and loan associations.

[5] Consists of borrowings from other than commercial banks through federal funds purchased and securities sold under repurchase agreements plus loans sold to affiliates, loans sold under repurchase agreements, and other borrowings. 1980 Q4 estimated.

n.s.a. Not seasonally adjusted.

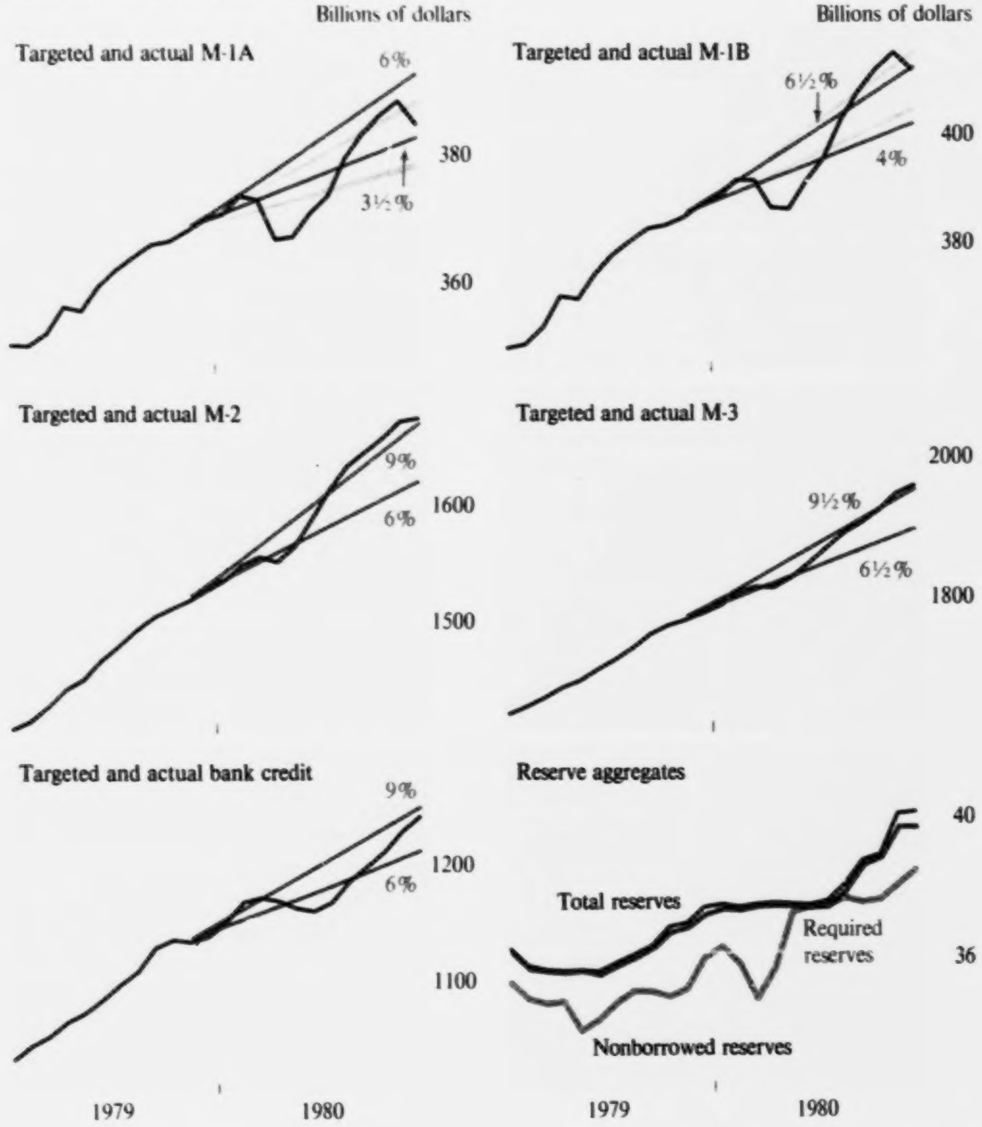
tion of further increases in prices and more stringent conditions in credit markets spurred the growth of short- and intermediate-term credit in the early months of the year, and expansion in commercial bank credit was well in excess of rates consistent with its annual growth range. Midway through the first quarter, M-1A and M-1B also began to accelerate, and the levels of these aggregates approached the upper ends of their longer-run ranges. As required reserves of commercial banks began to exceed the System's provision of nonborrowed reserves and as the path of nonborrowed reserves was reduced from previously targeted levels in response to the excessive growth of money and credit, short-term interest rates began to rise rapidly. The discount rate was raised 1 percentage point in mid-February, and short-term market rates reached record levels.

In light of these developments, a broad governmental program designed to curb inflationary forces was announced on March 14. As part of this effort, the Federal Reserve initiated a series of extraordinary actions—some taken under the authority of the Credit Control Act of 1969, which was invoked by a President for the first time. The act provides that "Whenever the President determines that such action is necessary or appropriate for the purpose of preventing or controlling inflation generated by the extension of credit in an excessive volume, the President may authorize the Board to regulate and control any or all extensions of credit."

The special credit restraint measures adopted by the Board were intended to supplement and reinforce the more general measures of monetary and credit control, and they were viewed as temporary. A major part of the program was a request that banking institutions and finance companies voluntarily limit expansion of their total loans to U.S. borrowers in 1980 to a rate that did not exceed 6 to 9 percent, consistent with the announced growth ranges for money and credit. No numerical guidelines for specific types of loans were provided; rather, the institutions were asked to avoid certain types, such as loans for speculative or purely financial purposes, but to place no special restraint on certain others, such as loans to small businesses, farmers, homebuilders and homebuyers, and auto dealers and buyers.

In addition, in order to discourage lending by commercial banks using purchased funds, the marginal reserve requirements on managed liabilities of large banks, originally imposed in October 1979, were increased and the reserve-free bases of these banks were reduced; a similar requirement for large nonmember banks was imposed in the form of special deposit requirements on increases in their managed liabilities. Also, a surcharge of 3 percentage points was added to the basic discount rate on frequent borrowings from Federal Reserve Banks by large member banks having deposits of $500 million or more. To restrain expansion of consumer credit, a special deposit requirement of 15 percent on increases above base-period levels was imposed on credit extended through credit cards, check-credit overdraft plans, unsecured personal loans, and secured credit when the proceeds were not used to finance the collateral. Finally, money market funds

Monetary, Bank Credit, and Reserve Aggregates



The shaded lines reflect adjustments to the original ranges for M-1A and M-1B to allow for larger-than-anticipated shifts to ATS and related accounts from existing demand deposits included in M-1A and from savings deposits and other instruments not included in M-1B. By allowing for these unanticipated shifts, the shaded ranges in an economic sense more accurately represent the intentions underlying the original targets.

Special borrowings consist of credit provided to institutions through the discount window to assist them in dealing with relatively severe and persistent liquidity problems. Because there is not the same pressure to repay such borrowing promptly as with normal adjustment credit, the broader economic impact of special borrowing is similar to that of nonborrowed reserves.

were directed to put up special deposits equal to 15 percent of the net increases in their assets after March 14.

Reflecting the substantial increase in the opportunity costs of holding transaction balances and the onset of a severe economic downturn, the narrow monetary aggregates contracted in late March and fell sharply further in April, to well below the lower end of their longer-run ranges. Although growth resumed in May and June, on average in the second quarter these aggregates declined to levels substantially below what would have been expected on the basis of the historical relationship among money, income, and interest rates. In view of the reduced pace of credit expansion, the Federal Reserve on May 22 announced a partial phaseout of the special credit restraint measures that had been in place since March, and on July 2 announced plans to complete the phaseout. (See "Record of Policy Actions of the Board of Governors," page 77.)

Partly in recognition of the special factors acting to slow money growth and also out of concern to avoid promoting inflationary forces, the provision of nonborrowed reserves in the second quarter was not designed to foster a rapid return of M-1A and M-1B to rates consistent with the FOMC's longer-run ranges for these aggregates. Even so, both short- and long-term interest rates dropped precipitously as money and credit demands fell off and signs of economic decline multiplied. The discount rate was reduced a full percentage point in May and again in June.

Although interest rates declined in the second quarter to their lowest levels in two years, outflows from savings deposits accelerated at both commercial banks and thrift institutions. At the same time, shifts into small-denomination time deposits rose above the pace of the first quarter. The bulk of this growth was in 2½-year, small-saver certificates as investors sought to lock in their higher yields. (Effective January 1, 1980, commercial banks and thrift institutions were authorized to offer time deposits of any size having a minimum maturity of 2½ years and a maximum yield tied to that on Treasury securities.) Shares of money market mutual funds (MMMFs) continued to grow at a very rapid, although reduced, rate, and M-2 expanded further in the second quarter, even though its M-1B component contracted. Despite the collapse of demands for bank credit in the second quarter, large banks responded to the more rapid decline in domestic interest rates relative to Eurodollar yields by continuing to issue large-denomination time deposits in volume and by transferring a substantial proportion of the funds raised to foreign branches and foreign head offices.

After the unprecedented decline in the cost of credit during the spring and the termination of the special credit restraint program in July, economic expansion resumed in the summer—a turnaround that occurred much sooner and more strongly than most analysts had anticipated. These developments, combined with an apparent reversal of the special factors operating to damp monetary growth in the second quarter, produced a substantial boost to M-1A and M-1B, and both aggregates expanded in the third quarter at record rates. M-1A rose above the lower end of its range by midquarter, and M-1B exceeded its upper bound by September. M-2 expanded at a 16 percent annual rate in the third quarter, boosted in large measure by a reversal of the substantial savings outflows of the previous quarter. The rapid growth in core deposits enabled banks and thrift institutions to reduce their reliance on large certificates of deposit, so that the acceleration in M-3 was somewhat less than that in M-2.

As demands for total reserves responded to strengthening monetary growth during the summer months and as concerns about inflation intensified in light of the surprising sharpness of the economic recovery, upward pressure on interest rates began to develop. Short-term rates turned upward midway through the third quarter and the discount rate was increased a full percentage point in late September. By that time, long-term rates had retraced a considerable part of their decline during the spring and early summer months. This process was extended through most of the fourth quarter as money continued to expand at rates above targeted ranges. Near the end of the year, many interest rates reached levels exceeding those of the spring. As the federal funds rate rose rapidly, the discount rate was increased a full percentage point in both November and December, and the System reimposed a surcharge for large banks that borrow frequently from the discount window.

In response to the higher interest rates, growth in M-1A and M-1B slowed from month to month in the fourth quarter, and these money stock measures actually declined in December. Nevertheless, for the quarter as a whole, growth in these aggregates was vigorous, bringing annual expansion of M-1A to 5 percent, about the midpoint of its longer-run range; growth in M-1B, at 7¼ percent for the year, was ¾ percentage point above the upper end of its longer-run range.

The difference between the annual growth rates of these two aggregates was considerably greater than the ½ percentage point that was originally assumed and that was reflected in the stated growth ranges. That difference was based on expectations about the extent to which growth in automatic transfer service (ATS) accounts and negotiable orders of withdrawal (NOWs) in 1980 would draw funds from both demand deposits (depressing M-1A) and savings deposits (boosting M-1B). With the passage in March of the Depository Institutions Deregulation and Monetary Control Act of 1980 (MCA), which provided for establishment of nationwide NOW accounts as of December 31, 1980, banks began to promote ATS accounts more vigorously. As a result, actual growth in ATS and NOW accounts was greater than originally anticipated. Adjusted for current estimates of actual experience with transfers into ATS and NOW accounts, growth rates for both M-1A and M-1B were close to the upper end of the ranges set at the beginning of the year.

M-2 growth fell in the fourth quarter, to a 9 percent annual rate, as faster growth in small-denomination time deposits was more than offset by a sharp slowdown in the expansion of savings deposits and overnight Eurodollars and repurchase agreements (RPs) and by a runoff of MMMFs. For the year as a whole, M-2 grew about 10 percent, 1 percentage point above the upper end of the FOMC's target range. Much of the growth in the nontransaction component of M-2 in 1980 occurred in those assets offering market-related yields. As of December, such assets accounted for 45 percent of the nontransaction component of M-2, compared with 28 percent a year earlier. M-3 expansion slowed less than that of the other aggregates in the fourth quarter, owing to heavy issuance of certificates of deposit to fund robust growth in bank loans. Growth of M-3 for the year, 10 percent, was ½ percentage point above the upper end of its longer-run range.

As in the early months of the year, the strong expansion in bank credit at year-end reflected in part a diversion of borrowing from the bond markets to shorter-term credit sources. In addition, bank credit was made more attractive relative to other short-term sources of funds by the tendency for bank lending rates to lag rapidly rising money market rates and by more aggressive pricing for large business loans. Nevertheless, growth in bank credit for the year was well within its longer-run range.

In the fourth quarter of 1980, the reserve requirement provisions of the MCA went into effect. The act imposes federal reserve requirements on virtually all institutions offering transaction accounts or nonpersonal time deposits, including U.S. branches and agencies of foreign banks. Reserve requirements will become equal among all institutions for each type of deposit once the provisions are fully phased in over a period ending September 1987. This feature is expected to have major benefits in terms of promoting equity among financial institutions and enhancing the effectiveness of the FOMC's monetary control techniques. In addition, any depository institution holding reservable transaction accounts or nonpersonal time deposits is entitled under the act to the same access to the discount window as Federal Reserve member banks. The act further requires a competitive set of prices to be attached to Federal Reserve services, such as check clearing and the provision of coin and currency. Access to these services, which previously had been supplied without charge to member banks, will be extended under the act to all depository institutions as pricing of services is implemented. Finally, the act created the Depository Institutions Deregulation Committee, and directed it to develop an orderly phaseout of all interest rate ceilings on time and savings deposits during the six-year period beginning March 31, 1980.

Aggregate Flows of Funds

Net credit flows to nonfinancial sectors totaled approximately $363 billion in 1980, a decrease of about 8 percent from the previous year. Early in 1980, credit flows increased as economic activity remained strong and demands for credit were augmented by both an acceleration in prices and an increase in borrowing by businesses in anticipation of rumored credit controls. In the spring, however, credit flows contracted sharply when production and sales activity weakened, and monetary restraint, supplemented by the special credit restraint measures adopted in mid-March, contributed to tauter credit terms and reduced availability of funds at many lenders. The phasing-out of the credit restraint program, the upswing in economic activity, and the persistence of rapid inflation led to a moderate increase in credit flows in the second half of 1980.

The Treasury raised a sizable volume of funds in credit markets in 1980 to finance the combined deficits of the federal government and off-budget agencies. For the year, net Treasury borrowing amounted to about $79 billion, more than twice the total of the previous year. The Treasury continued to meet most of its net financing needs by sales of marketable securities, and Treasury bills accounted for a larger proportion of the net cash borrowing from the public than in previous years. Acquisitions of U.S. government securities by households dropped, in part because of a contraction in savings bonds outstanding as market interest rates soared above yields available on these instruments. In contrast, commercial banks and other private nonbank financial institutions increased their net purchases of Treasury securities.

Net funds raised by state and local governments rose to about $21 billion in 1980. The increase reflected in part a surge in the issuance of tax-exempt revenue bonds to purchase single-family mortgages, as conventional mortgage rates rose to record levels.

Net Funds Raised and Supplied in Credit and Equity Markets

Billions of dollars

Sector	1978	1979	1980^{p}	1980[1]			
				Q1	Q2	Q3	Q4^{p}
			Net Funds Raised				
Total, all sectors	482	483	434	497	253	454	533
U.S. government	54	37	79	62	67	99	89
State and local govenment	24	16	21	21	12	24	27
Foreign	32	21	30	24	35	27	33
Private domestic nonfinancial	291	321	234	303	119	231	281
Business	128	156	133	163	79	133	155
Household	163	165	101	140	40	98	126
Domestic financial	81	88	71	88	20	72	104
Private intermediaries	40	36	23	32	−16	33	44
Sponsored credit agencies	23	24	24	34	16	12	36
Mortgage pool securities	18	28	23	21	20	28	24
			Net Funds Supplied				
Total, all sectors	482	483	434	497	253	454	533
U.S. government	20	23	26	29	30	24	21
State and local government	15	13	20	18	2	36	26
Foreign	40	−6	22	−8	47	22	27
Private domestic nonfinancial	51	81	28	74	−53	53	39
Business	−1	10	10	8	−12	20	25
Household	52	71	18	66	−41	33	14
Domestic financial	356	373	338	385	224	318	423
Private intermediaries	305	308	285	315	179	293	353
Commercial banking	129	121	104	117	−2	129	171
Thrift institutions	76	56	57	35	27	74	94
Insurance and pension funds	84	90	98	103	108	93	86
Other[2]	16	41	26	60	46	−3	2
Sponsored credit agencies	26	29	25	40	6	24	32
Mortgage pool securities	18	28	23	21	20	28	24
Federal Reserve System	7	8	5	9	20	−26	15

1. Seasonally adjusted annual rates.
2. Includes finance companies, money market funds, real estate investment trusts, open-end investment companies, and security brokers and dealers.

^{p} Preliminary.

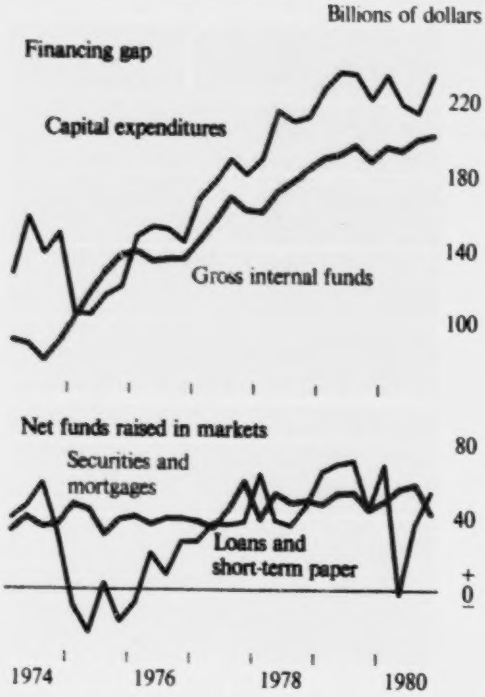
Late in the year offerings of such securities increased in response to federal legislation that restricts their issuance beginning in 1981 before barring them outright after 1983. Tax-exempt yields moved broadly in concert with taxable market interest rates in 1980, but the net rise in municipal bond rates over the year was proportionately greater than that of taxable yields. The increased supply of tax-exempt securities, together with reduced demands by casualty insurance companies, contributed also to the upward pressure on interest rates for longer-term tax-exempt obligations in 1980. Commercial banks increased their net acquisitions of tax-exempt securities, and issuers were induced to shorten the average maturities of their offerings because banks are less inclined to purchase longer-term tax-exempt issues.

The household sector reduced its borrowings sharply in 1980 from the record amount in the previous year. High interest rates and reduced credit availability, prompted in some states by restrictive usury ceilings, slowed the growth of installment credit early in the year. Installment credit then contracted in the spring by the largest amount in the postwar period, as further credit-tightening measures by lenders, a result in part of the special deposit and other features of the credit restraint program, curtailed the supply of credit. At the same time, the psychological impact of the credit restraint program was combined with the moderating effect on consumer spending of declining real incomes and worsening employment prospects. Installment credit began expanding again in the second half of the year, although at a relatively slow pace that reflected both the continuing low level of auto sales and restrictive terms by lenders.

Household borrowing in mortgage markets also slowed sharply in 1980, as many would-be homebuyers were deterred by both the high cost of mortgage credit and a stiffening of nonrate terms by major lenders. Average interest rates on new commitments for fixed-rate conventional home mortgages at savings and loan associations climbed to a record 16¼ percent in April. Reduced deposit flows and shrinking earnings margins as the costs of funds escalated damped the lending activity of depository institutions. The slowing in mortgage lending was concentrated in the residential sector early in the year, but spread to other sectors of the mortgage market in the spring. Rising unemployment and declining real incomes limited the willingness and ability of households to take on additional mortgage indebtedness, while businesses reduced their use of mortgage credit in association with cutbacks in commercial construction activity. Mortgage borrowing picked up in the late summer and fall in concert with the easing of mortgage interest rates, the improvement of deposit flows to thrift institutions, and the spread of innovative mortgage instruments that permit interest on loans to fluctuate with other market yields.

Net funds raised by nonfinancial business fell about 15 percent to $133 billion in 1980. Within the corporate sector, the gap between capital expenditures and gross internal funds of nonfinancial firms remained sizable, but a reduction in financial uses of funds—including net extensions of trade credit—lowered overall corporate financing needs. Net funds raised in markets by these corporations rose in the early months of 1980, when concern about the future availability of credit apparently en-

Financing Pattern of
Nonfinancial Corporations



Quarterly data at seasonally adjusted annual rates.

couraged many firms to build up their liquid asset holdings with borrowed funds. Borrowing then fell abruptly in the spring in association with the contraction in economic activity and the credit restraint program. Thereafter, credit demands rebounded as economic activity began expanding again.

The upward movement of bond yields early in the year to then-unprecedented levels discouraged major industrial corporations from publicly offering notes and bonds. Although funds made available to corporations through private placements of bonds and mortgages increased somewhat, life insurance companies (the major lender in private placements of corporate securities) sharply curtailed new commitment activity as policy loans and unexpected deferrals of employer contributions into some pension fund accounts reduced investable funds of these institutional investors. On balance, nonfinancial corporations concentrated their requirements on shorter-term sources of funds in the first quarter, especially bank loans and commercial paper issuance.

The pattern of financing by nonfinancial corporations shifted dramatically when interest rates declined rapidly in the spring. Commercial banks discouraged buiness borrowing as they became concerned about their earnings margins and meeting the guidelines for loan growth included in the special credit restraint program. Adjustments in the bank prime lending rate lagged downward movements in market interest rates; the relatively high cost of bank credit coupled with a reduction of short-term indebtedness by many businesses resulted in an overall contraction in business loans at commercial banks in the second quarter. Although issuance of nonfinancial commercial paper continued, total short- and intermediate-term credit showed virtually no growth, as a record amount of notes and bonds was publicly offered.

Businesses again relied heavily on external sources of funds in the late summer and fall, and the composition of the borrowing shifted back toward commercial banks as mortgage and bond yields again climbed to new highs. A large number of nonfinancial corporations postponed issues that were scheduled to be publicly offered, while other companies shortened the maturities of their issues. Stock prices remained at high levels, however, while new equity offerings continued at a fast pace and the volume of convertible debt offerings by lower-rated industrial firms rose to a new high.

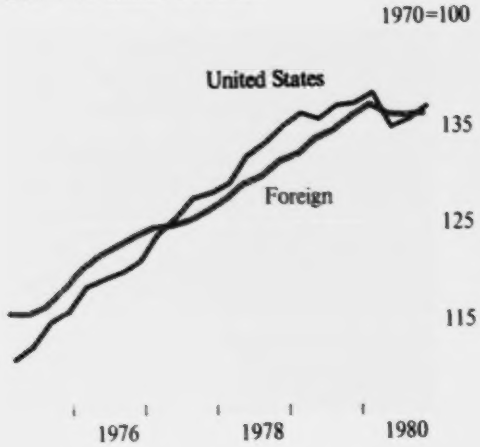
International Developments

Economic developments in major foreign industrial countries in 1980 were characterized by slack demand, high inflation rates, and major imbalances in international accounts. Inflation was seen as the critical economic problem, and policy was directed primarily to restoring price stability. By midyear many countries had made some progress against inflation, having absorbed part of the effects of the earlier sharp increases in oil prices, but the firm monetary and other policies necessary to achieve this result, together with the loss of real income resulting from higher energy costs, had a pervasive depressing effect on activity. Even though world demand for oil was sharply reduced in the year, the current-account surplus of the Organization of Petroleum Exporting Countries (OPEC) soared as oil prices rose, and the aggregate deficit of non-OPEC countries was correspondingly increased. A major exception was the United States, which registered essentially a balanced current account in 1980.

Foreign exchange markets were greatly influenced during the year by swings in U.S. interest rates—against a background of relatively stable rates in other industrial countries—and by contrasting developments in the current accounts of various countries. The path of the weighted-average dollar exchange value was close to that for the differential in short-term interest rates: a sharp appreciation in March and early April followed by an equally sharp drop as U.S. interest rates fell relative to rates abroad; a period of stability through the summer; and a sharp rise from October through mid-December. For the year as a whole, December to December, the weighted-average dollar appreciated about 5½ percent. The dollar appreciated against continental European currencies, especially against the German mark as that country's current-account deficit widened. However, the U.K. pound rose against the dollar and other currencies on the strength of an oil-supported current-account surplus and tight monetary policy, and the Japanese yen moved irregularly upward as that country registered relatively strong economic growth, a moderate inflation rate, and a reduced current-account deficit after midyear.

Foreign monetary authorities sold substantial amounts of dollars in the early months of the year, when their

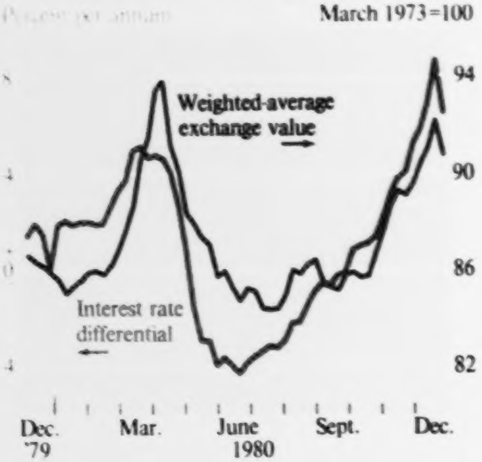
Gross National Product



Foreign is multilaterally weighted average of the Group of Ten (G-10) countries plus Switzerland, using 1972–76 total trade weights.

Data for the United States are from the U.S. Department of Commerce.

Weighted Average Exchange Value and Interest Rate Differential



Exchange value of U.S. dollar is the index of weighted average exchange value of the U.S. dollar against currencies of the other G-10 countries plus Switzerland, using 1972-76 total trade weights.

Interest rate differential is the interest rate on three-month U.S. CDs minus the weighted-average foreign three-month interest rate for other G-10 countries plus Switzerland using 1972-76 total trade weights.

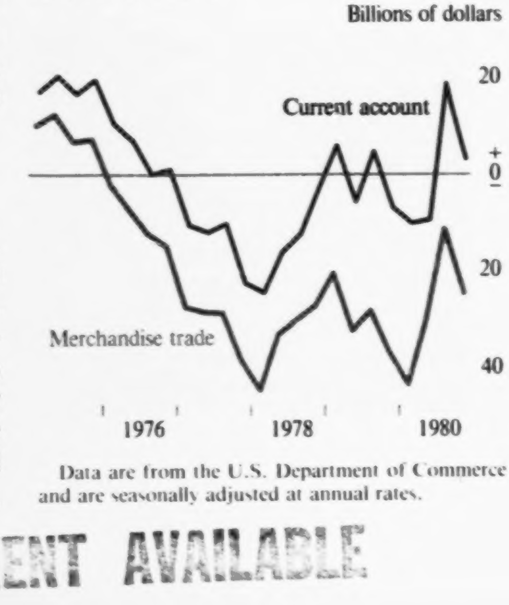
currencies came under selling pressure, and they also sold dollars, though in smaller amounts, toward the end of the year. U.S. authorities bought foreign currencies, primarily German marks, in substantial quantities at times when the dollar was in strong demand and, for the first time, accumulated sizable balances of foreign currency. This accumulation exceeded somewhat the outstanding foreign currency obligations of the U.S. government.

Current-Account Transactions

In the first half of the year the U.S. current account registered a deficit on the order of $10 billion (annual rate), but a sharp turn toward surplus occurred around midyear and was maintained, although at a significantly reduced rate, for the remainder of the year. Most of the change resulted from a drop in the trade deficit, reflecting several factors. A major element was a reduction in the value of oil purchased as the volume imported in the latter half of the year was down 20 percent from the first half. The price of imported oil doubled from the first quarter of 1979 to the first quarter of 1980, and increased a further 15 percent by the fourth quarter. Whereas the value of other imports rose somewhat for the year, there was some decline in volume as the U.S. economy slowed. On the export side, agricultural exports were well maintained, rising considerably in value compared with 1979 despite the limitations on sales to Russia. Other exports rose substantially in terms of both volume and price, but slackening demand in major markets brought some reduction in export volumes as the year progressed.

Net U.S. receipts from income on investments were unchanged in 1980, in contrast to a major increase in 1979. Earnings of U.S. direct foreign investments were restrained by weaker economic conditions abroad and a leveling off of the growth in petroleum industry profits,

U.S. Balances on Trade and Current Account



Data are from the U.S. Department of Commerce and are seasonally adjusted at annual rates.

while earnings of foreign direct investments in the United States rose substantially. Net income receipts from other private investments were raised by higher interest rates.

Capital Transactions

Several major shifts occurred in U.S. international capital flows in 1980, contrasting sharply with developments in 1979. Recorded net outflows of private capital were exceptionally large, notably in the second and third quarters, when flows through banking channels expanded rapidly. At the same time, however, large inflows through nonbanking channels apparently were not caught by the reporting system and were therefore contained in the enlarged statistical discrepancy. The increased net outflow through banking channels after the first quarter probably reflected

U.S. International Transactions [1]

Billions of dollars

Transactions	Year		Quarter				
			1979	1980			
	1979	1980	Q4	Q1	Q2	Q3	Q4
Current account	**-.7**	**.1**	**-1.7**	**-2.6**	**-2.4**	**4.5**	**.7**
Merchandise trade balance	-29.4	-27.4	-9.2	-10.8	-7.5	-2.9	-6.1
Exports	182.1	221.8	50.2	54.6	54.6	56.1	56.4
Imports	211.5	249.1	59.4	65.5	62.1	59.0	62.5
Investment income (net) [3]	32.5	32.5	8.9	10.1	6.1	8.1	8.3
Other services	1.8	1.9	.2	-.2	.3	.8	.8
Unilateral transfers, private and government	-5.7	-7.0	-1.6	-1.8	-1.3	-1.5	-2.3
Private capital flows, net	**-5.0**	**-39.8**	**-6.7**	**6.4**	**-24.8**	**-12.9**	**-8.5**
U.S. bank-reported capital, net (outflow, -)	6.8	-35.9	-6.8	6.1	-25.3	-12.1	-4.7
U.S. net purchase (-) of foreign securities	-4.6	-3.2	-1.0	-.8	-1.2	-.8	-.4
Foreign net purchase (+) of U.S. Treasury securities	4.8	2.7	.9	3.3	-1.2	-.3	.9
Foreign net purchase (-) of other U.S. securities	2.9	7.4	.3	2.4	1.2	1.0	2.8
U.S. direct investment abroad [3]	-24.3	-20.6	-4.1	-5.5	-2.9	-4.1	-8.2
Foreign direct investment in United States [3]	9.7	8.2	2.6	1.7	3.1	2.4	1.0
Other corporate capital flows, net	-.3	n.a.	1.5	-.8	1.5	.9	n.a.
Foreign official assets in United States (increase, +)	**-14.3**	**16.2**	**-1.2**	**-7.2**	**7.8**	**8.0**	**7.6**
U.S. government foreign assets, net (increase, -)	**-4.9**	**-13.3**	**-1.5**	**-4.7**	**-.7**	**-2.5**	**-5.4**
Reserve position in IMF	-.2	-1.7	([4])	([4])	-.1	-.3	-1.2
Convertible currencies and other reserve assets	-.9	-6.5	-.6	-3.2	.6	-.8	-3.0
U.S. government foreign credits and other claims, net	-3.8	-5.1	-.9	-1.5	-1.2	-1.4	-1.0
Allocation of special drawing rights	**1.1**	**1.2**	...	**1.2**	...	...	...
Seasonal adjustment discrepancy	...	...	**2.4**	**-.1**	**1.5**	**-4.0**	**2.7**
Statistical discrepancy	**23.8**	**35.6**	**8.8**	**7.1**	**18.7**	**6.9**	**2.8**

1. Details may not add to totals because of rounding.

2. Current account seasonally adjusted; other accounts not seasonally adjusted.

3. Includes reinvested earnings.

4. Less than $50 million.

SOURCE. U.S. Department of Commerce, Bureau of Economic Analysis.

various actions taken by the Federal Reserve in connection with the special credit restraint program, as well as the steep decline in U.S. interest rates. However, the positive statistical discrepancy suggests that U.S. nonbank borrowers were able to attract large amounts of foreign funds directly as U.S. credit demand remained active and U.S. dollar instruments, such as commercial paper, remained relatively attractive to foreign investors.

In other private capital flows, there was a considerable drop in U.S. direct investment abroad, mainly for the petroleum industry, and U.S. purchases of foreign securities also declined. While foreign private purchases of U.S. government securities fell off as the sale of mark-denominated Treasury issues was completed early in the year, foreign purchases of U.S. corporate stocks increased substantially.

Foreign official assets in the United States rose about $16 billion in 1980, with large net foreign sales of dollars for intervention purposes more than offset by increased placements in the United States by OPEC and other countries. U.S. official reserve assets increased about $9 billion in 1980, reflecting mainly the foreign currency purchases detailed below, as well as increased holdings of special drawing rights (SDRs).

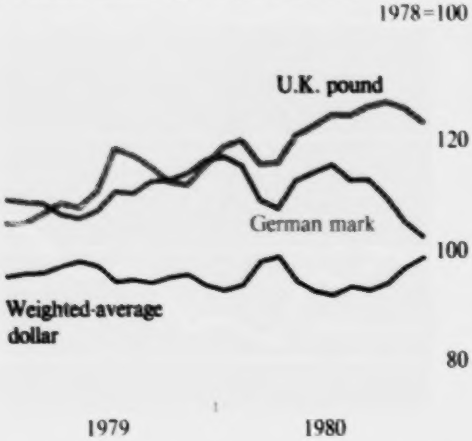
Operations in Foreign Currencies

The dollar's international value went through several wide swings during 1980, influenced mainly by shifts in U.S. interest rates. U.S. authorities made gross purchases and sales of nearly $19 billion equivalent of foreign currencies, compared with total transactions of $23 billion equivalent in 1979. The dollar's trade-weighted average value was somewhat more than 5 percent higher at the end of 1980 than it was at the end of 1979; but in early April it was as much as 10 percent higher, and at its lowest point, in July, it was nearly 2 percent lower than at the beginning of the year. Net purchases of foreign currencies for the year amounted to $8.7 billion equivalent, which were used primarily to settle all Federal Reserve obligations arising from swap drawings and to reconstitute nearly all the funds raised through Treasury sales of notes denominated in foreign currencies in German and Swiss markets during the last three years and through sales of SDRs and drawings on the International Monetary Fund in 1978.

As 1980 began, prospects for the dollar's value were mixed. The rapid rise in oil prices in 1979, the political tensions arising from developments in Iran, Afghanistan, and elsewhere, and the unstable conditions in gold and silver markets all contributed to market uncertainties. In this environment, the dollar's value showed some tendency to strengthen, and U.S. authorities moved to acquire a net amount of about $1 billion equivalent in German marks for repayment of Federal Reserve swap obligations.

Starting in February, a widening gap between U.S. and foreign interest rates, reinforced by the Federal Reserve's special credit restraints in mid-March, led to a spectacular rise in the dollar's value against all major currencies. U.S. authorities actively purchased foreign currencies, particularly German marks, and were

Selected Exchange Rate Indexes



Weighted-average dollar is the index of weighted-average exchange value of the U.S. dollar against the currencies of other G-10 countries plus Switzerland, using 1972–76 total trade weights. Other currencies are bilateral rates against the U.S. dollar.

able to retire completely outstanding Federal Reserve swap commitments and to accumulate additional balances against the U.S. Treasury's debt obligations. In all, an additional net amount of more than $4 billion equivalent of foreign currencies was purchased before the dollar's value reached a peak in early April.

The second quarter was marked by a sharp and deep decline in the dollar's value, associated with a fall in U.S. interest rates relative to those abroad. These developments took place against a background of severe contraction in U.S. economic activity. On a weighted-average basis, the dollar had given up all its late-winter gains by the end of May; against some individual currencies, such as the pound sterling and the Japanese yen, the dollar's downward movement was even more pronounced. U.S. authorities intervened to support the dollar in the amount of nearly $3 billion, net, between early April and early July, when the dollar's value showed signs of stabilizing. Almost all the foreign currency sold was German marks, but moderate amounts of Swiss francs and French francs were also used.

The wide margin by which U.S. interest rates had fallen below representative rates in foreign countries narrowed quickly as U.S. economic activity revived. At first, the dollar's value in terms of most major curren-

U.S. Government Purchases and Sales (–) of Foreign Currencies, 1980

Millions of dollars equivalent

Currency	Q1	Q2	Q3	Q4	Year
Federal Reserve					
German marks	3,687	343	1,191	1,747	6,967
	–435	–1,398	–544	–167	–2,544
Swiss francs	161	28	150	89	429
	–45	–187	–40	0	–271
Japanese yen	198	20	0	0	218
	–1	0	–5	0	–5
French francs	0	0	68	92	160
	0	–100	–61	0	–161
TOTAL	4,045	391	1,409	1,928	7,774
	–481	–1,685	–649	–167	–2,982
Treasury					
German marks	1,669	171	643	3,316	5,798
	–355	–1,209	–268	–97	–1,929
Swiss francs	29	0	88	18	135
	0	–11	–35	0	–46
TOTAL	1,698	171	730	3,334	5,932
	–355	–1,220	–303	–97	–1,975

1. Details may not add to totals because of separate rounding.

cies again moved up as market participants envisioned even higher U.S. interest rates during the recovery. When U.S. monetary aggregates began to expand at surprisingly high rates in August and September, however, concerns about U.S. inflation deepened, limiting further improvement in the dollar's value in spite of the continuing rise in nominal interest rates. During this period, the Federal Reserve purchased enough marks and French francs to repay by late October its swap obligations to the German and French central banks, and the U.S. Treasury restored some of the mark balances it had drawn on during the spring.

In the final quarter of the year, another surge in the dollar's value dominated foreign-exchange markets. U.S. interest rates once again rose to very high levels—higher in some cases than during the spring—and contractionary developments in some industrial countries led authorities there to lower, or at least not raise, their interest rates. The Federal Reserve and Treasury once more actively purchased German marks, acquiring a net amount of nearly $5 billion equivalent. With these purchases, the United States ended the year with balances that more than covered its outstanding foreign currency obligations.

The Federal Reserve's position at year-end included holdings of foreign currencies valued at $5.1 billion, at then-current exchange rates. These were primarily marks, Swiss francs, and yen. Of the total, the System owned $2.1 billion equivalent; funds held for the account of the U.S. Treasury amounted to $3.0 billion equivalent. No System swap drawings were outstanding. (At the end of 1979, the System owned foreign currencies valued at $0.3 billion and held $2.2 billion equivalent for the Treasury; System swap obligations then came to $3.2 billion.) The System had a net gain of $96 million on its foreign exchange operations in 1980, of which $25 million was net realized gain and the balance reflected various book-value adjustments.

Monetary Policy Reports to Congress

Given below are reports submitted to the Congress by the Federal Reserve on February 19, 1980, and on July 22, 1980, pursuant to the Full Employment and Balanced Growth Act of 1978.

Report on February 19, 1980

Federal Reserve Policy and the Outlook for 1980

The Objectives of Monetary Policy in 1980

Frequently in the past the decisions about stabilization policy seemed —perhaps sometimes misleadingly— to come down to a choice of how strongly to encourage recovery or to retard expansion. Decisionmakers face a much more complicated set of circumstances today. For some time now, most forecasters have suggested that the economy is on the verge of recession, but the recession has not appeared. Over the same period inflation has continued apace. The outlook for the economy remains obscured by major uncertainties, ranging from the possible economic effects of current international tensions and the prospects for world oil prices and supplies to the attitudes of investors around the world toward the dollar and the threat that inflation may bring increasing distortions of traditional spending and savings patterns. It is not within the powers of monetary and fiscal policy to resolve all of these uncertainties and to ensure a fully satisfactory economic performance.

Nonetheless, the appropriate direction for policy is clear. The greatest contribution the monetary and fiscal authorities can make is to impart a sense of long-range stability in policy and in the economic environment. In present circumstances, that requires an approach that provides assurance that the momentum of inflation will be arrested. Inflation not only represents an imminent threat to the sustainability of the current business expansion but also lies at the heart of many of the longer-range problems of the economy, such as the inadequacy of business capital formation, and the related declines in the productivity and real earnings of American workers, and the vulnerability of the dollar in foreign exchange markets.

Monetary policy clearly has a major role to play in the restoration of price stability. Regardless of the source of the initial impetus, inflation can be sustained over the long run only if the resulting higher level of dollar expenditures is accommodated through monetary expansion. The Federal Reserve is determined not to provide that sustenance but will adhere instead to a course, in 1980 and beyond, aimed at wringing the inflation out of the economy over time.

If recessionary tendencies should develop during 1980—as many expect—the steady anti-inflationary policy stance represented by continuing restraint on growth in the supply of money and credit would be consistent with an easing of conditions in financial markets, as demands for money and credit weaken. That would provide support for economic activity and would help assure the avoidance of a cumulating, deepening downswing. If, on the other hand, inflationary pressures mount, a policy of restrained growth in money and credit would lead to greater tautness in financial markets, thereby damping the expansion of aggregate demand. In any event, prospects for dealing with the inflation problem without serious economic disruption will be materially enhanced if other elements of government also exhibit a firm anti-inflationary commitment and if workers and management recognize that a moderation of their wage demands and pricing policies is in their own long-range interests as well as those of the nation as a whole.

The Growth of Money and Credit in 1980

At its meeting earlier this month, the Federal Open Market Committee (FOMC) established ranges of growth for the monetary aggregates that it believed, in light of the prospects for fiscal policy and for private demands, would impose appropriate restraint on inflationary forces in 1980. Measured from the fourth quarter of 1979 to the fourth quarter of 1980, the ranges are: for M-1A, 3½ to 6 percent; for M-1B, 4 to 6½ percent; for M-2, 6 to 9 percent; and for M-3, 6½ to 9½ percent. These ranges are based on the newly adopted definitions of the monetary aggregates; a description of this redefinition appeared in the FEDERAL RESERVE BULLETIN, volume 66 (February 1980) pages 97-114. The FOMC also projected that bank credit would expand between 6 and 9 percent during the current year.

The FOMC's ranges indicate the Federal Reserve's intention to seek an appreciable slowing of monetary expansion from the rates observed in 1979, and thus to move toward noninflationary rates of growth. The deceleration is especially marked in the case of the narrower aggregates. The midpoint of the range for M-1A, for instance, is 4¾ percent; in 1979, M-1A increased 5½ percent. The difference between these two figures actually understates the degree of deceleration in economic terms, however, since the adjustment of the public to the introduction of automatic transfer service (ATS) and New York State negotiable order of withdrawal (NOW) accounts probably reduced the growth of M-1A last year by roughly 1¼ percentage points as funds were transferred out of existing demand deposits to such accounts. In setting the range for 1980, the FOMC assumed, in the context of present law, that the public's adjustment process is about completed and that any shifting from demand deposits to ATS and NOW accounts will have little further impact on M-1A this year. Of course, if NOW accounts were authorized on a nationwide basis, some downward adjustment of the present M-1A range might be needed in order to take account of the accelerated shift out of conventional demand deposits that might result.

The range for M-1B—which includes checkable interest-bearing deposits in addition to currency and demand deposits—also implies a substantial slowing; the midpoint of the range, at 5¼ percent, is well below the actual 7.3 percent expansion in 1979. Of course, because ATS and NOW accounts are included in M-1B, the expansion in 1979 was enlarged by one-time transfers from regular savings deposits and probably other assets to the newly offered transaction accounts—the reverse of the experience with M-1A. For similar reasons, enactment of nationwide NOW account legislation would be expected to raise the growth of this money stock measure this year, and the present range would have to be reconsidered in that light.

M-2 likely would not be affected importantly by NOW account legislation, since it encompasses the major categories of assets that are close substitutes for NOW accounts. Besides M-1B, M-2 includes savings and small-denomination time deposits at commercial banks and thrift institutions, plus certain other highly liquid instruments—namely, money market mutual fund shares, overnight repurchase agreements (RPs), and overnight Eurodollar deposits at Caribbean branches of U.S. banks. The recently introduced 2½-year certificate, which has no specified minimum denomination and carries a ceiling rate close to that on Treasury notes, should serve to bolster growth of small time deposits. Six-month money market certificates likely also will remain popular. Nonetheless, absent a steep decline in market interest rates, the total of interest-bearing deposits subject to federal rate ceilings probably will continue in the months ahead to grow slowly by historical standards. However, growth of M-2 should be buoyed in 1980 as in 1979 by sizable flows into the money market funds. On balance, the prospect is that M-2 this year will grow at a rate somewhat below the increase of 8.8 percent in 1979.

The final monetary measure, M-3, includes, in addition to M-2, large-denomination time deposits of $100,000 or more and term (more than one-day) RPs at banks and thrift institutions. It is thus a very broad aggregate, encompassing most of the liabilities of the depositary institutions plus money market mutual funds. Given the moderation of demands for credit—especially at commercial banks—anticipated for the current year, M-3 appears likely to grow less than the 9.5 percent increase recorded in 1979.

It should be emphasized that, although we view these new monetary definitions as better measures of financial behavior today than the old definitions, the institutional framework is changing rapidly, and this implies an inevitable uncertainty about the behavior of any monetary aggregate. Furthermore, the Committee recognizes that other aspects of financing and economic developments will require careful monitoring in the process of policy determination and implementation. The ranges specified for the monetary aggregates appear adequate to the Committee to provide the necessary degree of flexibility.

The Outlook for the Economy in 1980

It is never an easy matter to project the course of the economy, but the current circumstances pose exceptional difficulties for forecasters. Aside from the uncertainties associated with international political tensions, we find ourselves in an economic environment characterized by historically high rates of interest and inflation, so that past experience may provide only a limited guide to prospective behavior. In order, though, to give the Congress an indication of the Federal Reserve's views about the outlook for the economy, the Board of Governors has assembled, in the accompanying table, ranges that encompass the judgements of its individual numbers about the most likely outcomes for several key variables.

The Board members' projections, it must be emphasized, rest on certain important assumptions. It is, for example, assumed that, although the cost of imported oil may rise moderately further over the course of this year, there will not be a repetition of the 1979 price runup and fuel supplies will not be disrupted. It is also assumed that overall federal spending in 1980 will generally be in line with the administration's current forecast and that there will be no federal tax cut.

Item	Range	
	Actual 1979	Projected 1980
Change from fourth quarter to fourth quarter, percent		
Nominal gross national product	9.9	7½ to 11
Real gross national product	.8	−2½ to ½
Implicit price deflator	9.0	9 to 11
Average level in fourth quarter		
Employment (millions)	97.7	97 to 98¾
Unemployment rate (percent)	5.9	6¾ to 8
Annual rate of change in fourth quarter, percent		
Consumer price index	13.2	8¾ to 12

As can be seen, even with these common assumptions, the range of probable outcomes is relatively wide. Even so, there is recognition that, while considered less likely, the actual outcomes could fall outside of the indicated ranges. Such is the nature of the uncertainties in the economic outlook at present.

Most members of the Board believe that a downturn in activity is likely sometime in 1980. Production cutbacks in the auto sector and a drop in residential construction activity already have occurred; meanwhile, a rising oil import bill continues to act as a drag on aggregate demand. With these depressants on employment and income growth, consumer spending is expected to slacken in the months ahead.

It is likely that the tighter consumer and mortgage credit conditions now existing and the already high debt obligations of households will encourage some recovery in the abnormally low personal saving rate in coming quarters. The weakening of consumer demand would also tend to damp plant and equipment spending as softer markets tend to deter businesses from outlays that would add to excess productive capacity. Net exports might rise somewhat, however, owing to the impact on import volume of the weakness in domestic spending and production.

In the labor markets, employment may be flat this year and could well decline somewhat in the goods-producing sectors. At the same time, the growth of the labor force probably will slow, reflecting in part the reduced growth of the working-age population but also the usual cyclical response to slack demand for workers. The unemployment rate, which turned upward last month, is likely to remain in an uptrend over the remainder of the year.

Even in such an economic environment, progress in reducing inflation will be delayed. Indeed, in the first quarter, the rise of the consumer price index could accelerate, owing in large measure to the latest round of oil price increases and to the lagged impact on the index of the rise in mortgage rates last fall. Throughout the coming year, wage demands will reflect efforts of workers to catch up with past inflation, and pressures on unit labor costs may be intensified by cyclical weakness in productivity. Energy prices probably will continue to rise rapidly, as recent increases in prices by the Organization of Petroleum Exporting Countries (OPEC) are passed through to consumers and as domestic gas and oil markets are gradually freed from controls.

Should aggregate demand prove relatively strong, as some think possible, inflationary pressures across the economy could prove more persistent. For example, it must be recognized that any substantial increase in defense spending beyond what already is contemplated in the administration's budget could significantly alter the economic outlook. The lag between authorization and actual federal outlay may be quite long in the case of military hardware, but expectational impacts on employment, production, and private spending can emerge fairly quickly.

The Administration's Short-Term Economic Goals and the Relationship of the Federal Reserve's Monetary Objectives to those Goals

According to the President's *Economic Report*, which was submitted to the Congress last month, the following short-term goals were laid out for the economy:

Item	1980	1981
Change from fourth quarter to fourth quarter, percent		
Real gross national product	−1.0	2.8
Consumer prices	10.7	8.7
Real disposable income	.5	1.1
Productivity	−.3	1.3
Average level in fourth quarter		
Employment (millions)	97.8	99.7
Unemployment rate (percent)	7.5	7.3

These goals, the *Economic Report* indicates, should be viewed as forecasts rather than as indications of the administration's desires. The administration expects a mild recession, not lasting much past the middle of 1980. A recovery then begins and carries through 1981. The consumer price index rises much less rapidly this year than in 1979 (when it increased 13.3 percent), largely in reflection of an expected slowing in the rise of energy prices and of home purchase and financing costs. A broad price measure less affected by these special factors, the implicit GNP deflator, is projected to rise 9 percent in 1980, the same as in 1979, and to slow to only 8.6 percent in 1981.

There is no apparant incompatibility between the Federal Reserve's 1980 monetary growth ranges and the economic forecast of the administration for 1980. The administration has projected a rise in nominal GNP of about 8 percent; this figure is well within the capacity of the FOMC's monetary ranges to finance.

With regard to the more distant future, the pattern of developments that appears likely this year would seem to be consistent with the resumption of moderate expansion in economic activity in 1981. However, the chances of sustaining an advance over time would be greatly enhanced, in an environment of continued monetary restraint, if there were greater progress in reducing inflationary pressures than is suggested by the administration's price forecast. Such progress would depend on, among other things, continued fiscal prudence, moderate wage and price behavior by labor and business, an improved productivity performance, and maintenance of a strong dollar in exchange markets.

A Review of Recent Economic and Financial Developments

Overview of Developments in 1979

One year ago the Federal Reserve reported to the Congress, as required by the Full Employment and Balanced Growth Act, its objectives for 1979. The Board indicated that, in light of growing pressures on resource availability, a moderation in the rate of economic expansion was essential if inflationary forces were to be contained. The pace of price advance had already accelerated over the preceding year, and it was recognized that if this tendency toward faster inflation were not reversed, the progress that had been achieved by the November 1, 1978, program to bolster the dollar on foreign exchange markets would be jeopardized and the dangers of serious economic disruption would be heightened. Consequently, at its February meeting, the Federal Open Market Committee had set growth ranges for the major monetary aggregates that would be consistent with reasonable restraint of demands for goods and services in the economy.

The first half of 1979 saw a number of unanticipated, negative developments. Economic activity was depressed by inclement weather, by labor disputes, and by gasoline shortages. More critically, foreign oil producers posted drastic price increases, giving added impetus to inflation and draining income from the U.S. economy. In this environment, the Board reported in July that there appeared a significant threat of a mild recession in the months ahead. It also noted that there was little hope of a near-term slowing of inflation. Under these circumstances, the FOMC reaffirmed the previous ranges for monetary aggregates at its July meeting.

Aggregate demand actually proved stronger than generally expected in the second half of 1979, largely because consumers displayed a surprising willingness to spend, reducing their rate of saving to an extraordinarily low level. Real gross national product rose moderately, and the overall unemployment rate remained stable. Inflation, as measured by the implicit GNP deflator, did not abate, but neither did it accelerate, as labor costs and food prices behaved somewhat more favorably than anticipated.

Taking 1979 as a whole, monetary expansion was broadly consistent with the FOMC's objectives—with the major money stock measures falling close to or within the upper halves of the Committee's announced ranges. Meanwhile, real GNP growth was somewhat less rapid and inflation somewhat more rapid than might have been expected last February. Energy supply and price developments provide much of the explanation for this adverse mix of output and inflation; they also represent a major peril to the satisfactory performance of the economy in 1980. Indeed, more secure energy supplies and control of inflation are necessary conditions for the longer-range progress of our economy and must remain priority matters for public policy until they are achieved.

Economic Activity in 1979

Economic activity registered only a small gain last year, following almost four years of brisk expansion. Real gross national product increased about 1 percent over the four quarters of 1979; industrial production rose a bit early in the year but then edged off, finishing the year just marginally above the December 1978 level. Two fundamental factors exerted a pervasive damping influence on aggregate private demand: a near doubling of the average cost of imported oil, which drained income to foreign producers and exacerbated underlying inflationary pressures, and a posture of increasing restraint by monetary and fiscal policy to contain those pressures and to prevent a worsening of long-range price trends.

While these factors were tending to moderate growth of output and expenditure throughout the past year, quarterly movements in activity were importantly influenced by a series of unexpected shocks. In the winter months, unusually severe weather in many parts of the nation depressed activity in several sectors. In the spring, real GNP declined appreciably in response to strikes that disrupted production and transportation and to shortages of gasoline. As the strikes ended and gasoline lines disappeared in the summer, activity snapped back smartly, especially in the retail sector where auto sales were boosted by price incentives offered by dealers and manufacturers in an effort to cut back inventories. Real GNP growth slowed again in the final months of the year, as the special elements of strength in the third quarter dissipated and the basic restraining influences in the economy dominated.

Among the major sectors of the economy, the greatest weakness during 1979 was in residential construction and consumer durable goods. This pattern is typical of periods when aggregate activity levels off, particularly when there is a tightening of financial markets, as there was last year. In 1979, however, the softness of spending on consumer durable goods was exacerbated by the effects of gasoline price and supply developments on the demand for automobiles. Consumer spending on other items proved quite robust, and total personal consumption expenditures rose even though real disposable income was virtually flat. Business fixed investment, which normally lags cyclical turning points, posted a small real gain in 1979; at the same time, perhaps because an economic slowdown was widely anticipated, firms maintained a tight rein on stocks, and despite the problems of the auto sector, inventory accumulation was reduced over the year. Government outlays were flat in 1979, reflecting at least in part public sentiment for restraint on taxes and spending. The one major area of strength was the international trade sector; in constant-dollar terms, the net export balance grew substantially as a result of the relatively faster expansion of foreign economies and the continuing effects on exports and imports of past exchange rate changes.

Personal consumption expenditures. Real consumer outlays grew 1½ percent during 1979, compared with 4½ percent during 1978. Underlying the weakness in consumer spending was a still sharper deceleration in real disposable income, which rose only ¼ percent during 1979 after a rise of 4¼ percent in the preceding year. Growth of nominal income slowed significantly, and household buying power was further eroded by accelerating inflation and by the rise in tax burdens related to higher social security taxes and to the interaction of inflation and a progressive income tax.

All of the advance in real consumer spending occurred in the second half of the year when the saving propensities of households fell to historically low levels. The personal saving rate in the fourth quarter was about 3¼ percent—1 percentage point less than the previous post-Korean-War record low. The rise in consumer spending after midyear was to some extent a rebound from the weak second quarter, when gasoline shortages had disrupted normal spending patterns and cut demand for large fuel-inefficient cars. In response to falling sales and excessive inventories, domestic automobile producers instituted major sales promotion campaigns in the third quarter and again near the end of the year. As a result, sales were boosted noticeably; indeed, the higher selling rates may well have involved some "borrowing" from future periods.

Consumer sentiment, as measured by opinion surveys, began to deterioriate in 1978 and worsened in 1979, reaching levels that in the past have been associated with recessionary periods. Previous experience with these surveys suggests that there should have been a cyclical downturn in consumer spending. That such a decline did not occur appears at least partly attributable to the strength of inflationary expectations, which encouraged a buy-in-advance mentality. In the latter part of the year, however, consumers began to exhibit less eagerness to purchase durable goods in anticipation of future price increases and to show greater concern about high interest rates and lessened credit availability. Given the already reduced liquidity of the household sector associated with further heavy borrowing in 1979, a turn toward somewhat more cautious spending patterns would not be at all surprising.

Residential construction. Expenditures for residential construction, in constant dollars, fell about 8 percent in 1979; given the magnitude of the rise in interest rates over 1978 and 1979, this is a modest decline by historical standards. The demand for housing was sustained by underlying demographic trends—including substantial population migration and rapid household formation—and by the growing interest in homes as an investment and as an inflation hedge. The combined effects of rising house prices and mortgage interest rates caused the monthly carrying costs of homeownership to climb steeply, but buyers were willing to allocate an increasing share of their income to housing. At the same time, the potentially disruptive effects of rising market interest rates on mortgage credit availability were considerably ameliorated by such institutional developments as the improved ability of thrift institutions to compete for lendable funds, most notably through issuance of six-month money market certificates, and the increasing use of mortgage-related securities.

Private housing starts averaged 1.8 million, at an annual rate, during the first three quarters of 1979, down from the pace of 2.1 million in the latter part of 1978. Starts fell to about a 1.5-million rate in November and December, however, when the terms and availability of construction and mortgage credit tightened dramatically in response to the October 6 monetary actions by the Federal Reserve. Home sales also fell in the closing months of the year, and prices gave some sign of leveling off. In contrast to the 1973 housing downturn, builders are not saddled with outsized inventories of unsold units, and rental vacancy rates generally are very low.

Over the course of 1979, single-family starts fell almost a third from the very high level of the preceding year. Starts of multifamily units declined only 10 percent. An increase in starts of multifamily units built for sales as condominiums or cooperatives was more than offset by a decline in unsubsidized rental units. Building under the section 8 rental subsidy program of the U.S. Department of Housing and Urban Development accounted for one-quarter of all multifamily units, about the same proportion as in 1978.

Business spending. Spending policies of businesses were generally cautious last year as firms, anticipating some slowing of sales, attempted to avoid creating excess capacity or accumulating unwanted inventories. Real business fixed investment rose only 1¾ percent during 1979 compared with 10½ percent in the previous year. As has been common in the advanced stages of economic expansions, spending increases were concentrated in structures, for which there is a long lag between the formulation of plans and the completion of new facilities; earlier in the expansion, capital spending had been dominated by shorter-lived producers' durable equipment such as trucks and fleet autos. Most of the advance in nonresidential structures during 1979 was for commercial and industrial buildings. Investment in equipment was little changed over the year, with gains in machinery and aircraft offsetting declines in motor vehicles.

Given the continuing need for new capital to improve productivity, and thereby to alleviate inflationary pressures and to support rising living standards, the level of business fixed investment last year left much to be desired. After allowance for replacement requirements, the net addition to the nation's capital stock was small. At the end of 1979, the ratio of the stock of business fixed capital to the size of the labor force differed little from the 1975 level; in contrast, the capital-labor ratio increased at an average annual rate of 2.7 percent over the decade of the 1960s, when productivity and real income per capita grew rapidly.

Businesses generally attempted to maintain lean inventories last year. Total inventory investment in constant dollars did accelerate during the first half of the year, however, reflecting primarily an inventory imbalance for large domestic automobiles. After midyear, however, auto makers combined production cutbacks with price incentives to bring stock back into line with sales. Outside of the automobile industry, businesses generally succeeded in controlling inventory positions throughout 1979. This goal became especially important toward the end of the year when short-term interest rates rose substantially, increasing inventory carrying costs. By year-end, the real stock-sales ratio for manufacturing and trade was in the normal range, suggesting an absence of the kind of inventory imbalances that frequently have aggravated recessionary tendencies in the past.

Government sector. Government outlays for goods and services were about unchanged during 1979 following a moderate rise during the previous year. Public sentiment for spending restraint continued to affect decisionmaking by all levels of government; federal fiscal policy was additionally influenced by the need to avoid any aggravation of inflationary forces in the economy.

Real federal purchases grew about

1 percent during 1979, as higher defense spending more than offset slower growth of outlays in the strategic petroleum reserve and farm price support programs. Total federal expenditures—including transfers—recorded a faster rate of growth in 1979 than in 1978, owing in part to a large midyear cost-of-living increase for social security recipients and to higher interest payments on the public debt. However, inflation-induced increases in nominal incomes and previously legislated increases in social security taxes resulted in a sizable rise in federal tax collections, and as a result, the federal budget deficit—on a national income accounts basis—declined considerably over the year. The high employment budget surplus, an indicator of the thrust of discretionary fiscal policy, increased, signaling greater restraint on aggregate demand.

At the state and local level, real purchases of goods and services declined marginally during 1979 following a sizable increase a year earlier. Construction spending was particularly depressed following federal cutbacks in grants for local public works and public employment programs. Moreover, states and localities also attempted to limit spending by holding down employment growth; the increase in employment during 1979 was about the same as in the previous year but was considerably less than the average annual gains recorded earlier in the decade. Despite this slowdown in the pace of spending, the fiscal position of states and localities deteriorated in 1979 as revenue growth fell far short of the gains posted in the previous year. Tax cuts by many governmental units and lower car sales and gasoline consumption limited the growth of income and sales tax revenues. As a result, states and localities showed their first operating deficit (budget position net of social insurance funds) in three years.

International trade and payments. Net exports of goods and services were the only major sector that turned in as strong a performance in 1979 as in 1978. On a GNP basis, real net exports increased about $8 billion last year. The U.S. merchandise trade deficit, although swollen by an $18 billion increase in the cost of imported oil, was $29 billion in 1979, $5 billion less than in 1978.

The volume of exports continued to expand rapidly during the past year. Agricultural exports jumped to record rates in the second half as drought in the Soviet Union and Eastern Europe boosted sales. More importantly, the volume of nonagricultural exports rose about 12 percent in 1979; U.S. producers benefited from an improved competitive position brought about by the depreciation of the dollar in 1977 and 1978 and from relatively robust economic growth abroad.

In contrast, U.S. import demand was damped by the sluggish performance of domestic income and industrial production. Imports other than oil rose only marginally in volume terms in 1979, although foreign auto producers captured a record share of the U.S. market as consumer preferences shifted toward fuel-efficient cars. At the same time, the volume of oil imports was virtually unchanged from the 1978 level, with reduced consumption offsetting the impact of a rebuilding of inventories. World oil prices, after remaining flat for two years, jumped sharply. The average cost per barrel of imported oil in December 1979 was 87 percent above the level at the end of 1978. By the fourth quarter, U.S. oil imports were at an annual rate of $75 billion, compared with a $43 billion rate a year earlier.

The current account, which was in deficit by about $14 billion in each of the two previous years, was roughly in balance in 1979. Net receipts from service transactions, continuing their rapid growth of recent years, offset the merchandise trade deficit. The net return on foreign direct investment was especially strong, reflecting continued economic expansion abroad, the favorable effects of the 1977-78 depreciation on the dollar value of foreign profits, and the surge in overseas earnings of U.S. oil companies. Total earnings on U.S. direct investments abroad were on the order of $37 billion; perhaps half of these earnings were reinvested abroad and therefore recorded also as an outflow of U.S. private capital. Earnings of foreign direct investments in the United States also rose, but they are on a much smaller scale.

Prices, Wages, and Productivity

In 1979, prices advanced at historically high rates, primarily as a result of pressures from energy and labor costs. The fixed-weight price index for gross domestic business product, a broad measure of aggregate prices, rose about 10 percent during 1979, a pace more than 1¼ percentage points above the previous year's rate of increase. Other price measures increased even more: the fixed-weight price index for personal consumption expenditures (PCE) rose 10¾ percent while the consumer price index (CPI) increased 13¼ percent. The differences between these two indicators reflected mainly alternative conceptual treatments of homeownership costs. At the producer level, prices of finished consumer goods were up about 12½ percent over the course of last year.

Rapid increases in energy prices, particularly for petroleum products, dominated inflation developments during the year. Imported oil priced under long-term contracts rose steadily, from an official OPEC contract price of $12.91 per barrel in December 1978 to prices ranging from $24 to $30 per barrel one year later. Moreover, the stockpiling of petroleum by some countries and production cutbacks in Iran resulted in spot market prices that were considerably above official OPEC levels. At the same time, in the U.S. market the producer price index for crude oil was up about 50 percent during 1979, reflecting both price increases for domestic uncontrolled oil and the initiation of the administration's decontrol program on June 1.

The large increases experienced in petroleum prices had significant direct and indirect effects. Retail gasoline prices rose more than 50 percent, and fuel oil prices advanced almost 60 percent despite some softening in demand that was attributable both to conservation and to mild weather late in the year. In addition, rising energy costs led to faster price increases for a number of other consumer goods, including transportation services and residential rents. At the producer level, prices of goods such as industrial chemicals and plastics also reflected the steep runup in energy costs.

In contrast to energy prices, food prices increased less sharply in 1979 than in 1978. Over the four quarters, consumer food prices rose 10¼ percent, following an 11¾ percent increase in 1978. Although beef remained in relatively short supply during 1979, the greater availability of other meats and poultry contributed to some deceleration of food prices during the summer.

Inflationary pressures persisted in sectors outside energy and food. Prices of consumer goods excluding food and energy accelerated during 1979: the PCE fixed-weight price subindex for such items rose 7¾ percent in 1979 compared with 7 percent the previous year, and the corresponding CPI subindex rose at an even faster rate. Prices of capital equipment and nonresidential structures rose at a faster pace in 1979 than in 1978. Price movements in commodity markets were quite volatile throughout the year and reflected considerable speculative activity related in part to international political and military tensions.

Wage increases in the nonfarm business sector moderated very slightly to 8 percent in 1979, compared with 8½ percent the year before. Compensation per hour, which includes fringe benefits and employer contributions for social insurance as well as wages, rose almost 9 percent, just a shade less than in 1978. The administration's voluntary pay standard probably restrained the advance in compensation somewhat in the face of accelerated price inflation; however, sectors in which cost-of-living protection is prevalent, such as manufacturing, generally experienced the largest gains even though demand for labor in those sectors was relatively weak.

Labor productivity—that is, output per hour worked—declined 2¼ percent in the nonfarm business sector. As a result, despite the slowing of compensation, the rise in unit labor costs accelerated sharply, from 8 percent in 1978 to 11½ percent in 1979. The poor performance of productivity reflected in part the continuation of the weak trend of recent years, associated with sluggish growth of the capital stock, changes in the composition of the labor force, and other long-range factors. In addition, however, there was a cyclical element in the drop in productivity; there is normally a tendency for output per hour to drop when economic expansion decelerates, as employers initially are loath to lay off trained workers for what might prove a short period of slack.

Many workers saw their wage gains outstripped by price increases during 1979. The lack of progress in real wages is not surprising, given the drop in productivity and the adverse terms-of-trade impact of the surge in foreign oil prices. Nonetheless, American workers have become accustomed to an upward trend in their purchasing power, and there are likely to be strong catchup demands this year. The administration's 1980 wage standards take this fact into account, permitting somewhat bigger wage hikes for those workers who experienced relatively small gains in 1979

Labor Markets

The demand for labor remained quite strong in 1979, despite the sluggishness of output growth. Firms experiencing gains in sales added to their payrolls, while those encountering dips in the demand for their products evidently tended to retain their workers—with the negative consequences for productivity and unit labor costs noted in the preceding section. Over the year as a whole, the number of workers on the payrolls of nonfarm establishments increased 2.1 million, less than in 1978, but nonetheless a sizable gain.

The major area of greatest strength in hiring was the service sector, in which employment rose fairly steadily throughout the year. Manufacturing payrolls, in contrast, declined slightly in the second half of 1979. This weakness was concentrated among durable goods producers, especially in the motor vehicles and steel industries. By the end of the year, about 130,000 auto workers were on indefinite layoff.

The strength of labor demand in the service sector may help to explain the large increase in the number of women in the labor force last year. Many of the occupational groups in the service sector traditionally have had high proportions of female workers. Adult women have accounted for a large percentage of labor force growth in the past several years, and this pattern continued in 1979, when they accounted for two-thirds of the expansion both in the labor force and in total employment.

The overall labor force participation rate grew less rapidly in 1979 so that the smaller increase in employment was still sufficient to hold the unemployment rate almost constant throughout the year, at about 5.8 percent. This is a level that, given the composition of the work force and other characteristics of the labor market, most analysts agree is today consistent with relatively tight labor supplies. Certainly, the proportion of the population employed remained at an all-time high during 1979, and many employers continued to report difficulty in finding well qualified workers. Some statistical indicators of labor market tautness did, however, begin to move in the direction of greater ease as the year progressed; for example, the share of the labor force on layoff, the unemployment rate for males 25 and over, and the blue-collar jobless rate all increased a bit after the first quarter. In January 1980, when the unemployment rate rose from 5.9 to 6.2 percent, the increase largely reflected layoffs of adult male, blue-collar workers.

There were no significant changes over the past year in the structure of unemployment. The jobless rates for nonwhites, for teenagers, and for black teenagers have not improved relative to those for other major population groups. This January, the nonwhite unemployment rate was 11¾ percent, teenage unemployment was 16¼ percent, and black teenage unemployment was 34½ percent. The unemployment rate among nonwhites has remained about twice the level for whites, and teenage unemployment continues to be about three times the rate for adults.

Domestic Financial Markets

Interest rates. Market rates of interest rose substantially during 1979, surpassing the previous highs recorded in 1974. As in that earlier year, sharply accelerated inflation created strong demands for money and credit and correspondingly intense upward pressures on interest rates. These pressures were most evident in the second half of the year, when the Federal Reserve had to adopt an increasingly restrictive posture in order to keep the monetary aggregates within the ranges set earlier and reported to the Congress. On October 6, the System took certain actions aimed at providing greater assurance that its monetary objectives would be achieved. A fundamental change was made in the System's operating procedures, shifting the day-to-day focus of open market operations from the federal funds rate to the growth of member bank reserves.[1] At the same time, the discount rate was raised 1 percentage point to 12 percent, and an 8 percent marginal reserve requirement was applied to certain managed liabilities of commercial banks.[2]

Over the course of 1979, interest rates on short-dated money market instruments such as Treasury bills, large certificates of deposit (CDs), and commercial paper generally rose 2½ to 3 percentage points. In long-term debt markets, taxable bond yields increased 1½ to 2 percentage points, and interest rates on conventional home mortgage loans increased about 2½ percentage points. Short-term rates have fluctuated around their year-end levels during the past several weeks, but bond yields have risen to new highs, apparently at least in part a reflection of concerns about the consequences of a possible stepup in defense spending on the federal budget and on inflation.

Monetary aggregates. The major monetary aggregates grew more slowly in 1979 than they had in 1978.[3] The deceleration was particularly marked in the case of M-1. The FOMC last February established a range of 1½ to 4½ percent for growth of M-1 (currency and demand deposits) in the year ending with the fourth quarter of 1979; this compared with an increase of 7¼ percent in the preceding year. As the Board indicated to the Congress in its initial report under the Humphrey-Hawkins Act, it was estimated that growth in M-1 during 1979 might be reduced as much as 3 percentage points by the shifting of funds from existing demand deposits to newly authorized ATS accounts across the nation and NOW accounts in New York State. This meant that the observed growth rate of M-1 might understate by 3 percentage points its expansion in terms of actual economic impact.

In its midyear report, the Board stated that the FOMC had reaffirmed the range of 1½ to 4½ percent, with the understanding that this range would be adjusted upward to the extent that the impact of ATS-NOW account shifts fell short of the original estimate of 3 percentage points. With inflows to ATS and NOW accounts falling off sharply, the FOMC employed an adjusted M-1 range of 3 to 6 percent during the remainder of the year based on an expected ATS-NOW effect of around 1½ percent.

In any event, M-1 increased 5.5 percent during 1979, and the estimated depressing effect of ATS-NOW accounts amounted to about 1¼ percentage points. The aggregate was approaching the upper bound of its range in the late summer, but its growth moderated in the closing months of the year. This slower growth has continued into 1980.

M-2, which includes, in addition to M-1, bank time and savings deposits other than large negotiable CDs, increased 8.3 percent between the fourth quarters of 1978 and 1979. This is slightly above the FOMC's range of 5 to 8 percent, established last February and reaffirmed in July. Expansion of the interest-bearing component was strong, as small-denomination time deposits grew at a very brisk pace, offsetting a contraction in passbook savings accounts. Six-month money market certificates (MMCs) accounted for all of the growth in small time and savings accounts; inflows were especially strong after March, when the federal regulatory agencies eliminated (for periods when the six-month Treasury bill rate exceeds 9 percent) the interest differential of ¼ percentage point that had previously given thrift institutions a competitive advantage in the MMC market. These actions were taken partly to reduce cost pressures on thrift institutions and partly to help moderate the flow of funds to depository institutions so as to restrain inflationary pressures.

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[1] Appendix B describes the new operating procedures [not included in this REPORT].

[2] The marginal reserve requirement applies to increases, above a base level, in the total managed liabilities of member banks, Edge corporations, and U.S. agencies and branches of foreign banks. These liabilities include large time deposits ($100,000 and over with maturities of less than a year), Eurodollar borrowings, repurchase agreements against U.S. government and agency securities, and federal funds borrowings from nonmember institutions. (Federal funds borrowings from member banks, Edge corporations, and agencies and branches are exempt to avoid double counting for reserve requirements, and a deduction is permitted against RPs for U.S. government and agency securities held in trading accounts.)

[3] The discussion in this section is cast in terms of the former definitions of the monetary aggregates since those were the basis for decisions during 1979.

M-3, which is M-2 plus deposits at thrift institutions, rose 8.1 percent in 1979, within the FOMC's range of 6 to 9 percent. Deposits at savings and loan associations, mutual savings banks, and credit unions expanded 7¾ percent, down from about 10½ percent in 1978 but still well above rates recorded in previous periods of high market interest rates. The key to the sustained growth of thrift institution deposits—particularly for savings and loans and mutual savings banks—was the MMC; however, there was also a sizable increase in large-denomination time deposits outstanding at savings and loans.

Credit flows. Because market interest rates rose further relative to the returns on fixed-interest-ceiling time and savings deposits at commercial banks and thrift institutions, a large volume of funds was placed instead in market debt instruments and in mutual funds or investment trusts during 1979. Money market mutual funds registered spectacular growth, their total assets increasing from $10 billion to $45 billion. (A record surge since year-end has boosted their total assets above the $55 billion mark.) However, the depository institutions, confronted with heavy credit demands, were able to obtain the lendable funds they desired through the issuance of ceiling-free liabilities such as large CDs, RPs, federal funds, and Eurodollar borrowings and, in the case of savings and loan associations, through borrowing from Federal Home Loan Banks. Consequently, depository institutions continued to account for a large proportion of credit provided to nonfinancial sectors of the economy, in contrast to the pattern observed at other times when market interest rates have been high. Commercial bank credit increased 12.2 percent over the year ending in the fourth quarter of 1979 —compared with the FOMC's projection of 7½ to 10½ percent—despite a leveling off in the fall.

The total volume of funds raised by domestic nonfinancial sectors of the economy in 1979 was about the same as in 1978. Reduced borrowing by governmental units approximately offset an increase in takings by business firms. Aggregate credit expansion was greatest in the first three quarters of the year, as the tightening of financial markets that accompanied the System's October actions contributed to a steep drop in borrowing by households and businesses in the fourth quarter.

The credit needs of the U.S. Treasury declined markedly in 1979 owing to the reduction in the federal budget deficit. The operating budgets of state and local governments meanwhile moved in the opposite direction, from surplus to deficit, but their net borrowing, too, diminished. Although the tax-exempt market was used much more extensively as a source of funds for residential mortgage finance, restrictive Internal Revenue Service regulations brought a virtual cessation of the advance refunding activity that had swelled state and local government bond issuance in the previous year.

The strong demand for housing, both as shelter and as an investment, and an evident desire to maintain past spending levels in the face of declining real disposable income kept borrowing by the household sector at an historically high level during 1979. Over the first three quarters, debt expansion exceeded income growth, and loan repayments as a percent of disposable income moved to a new high. By the latter part of 1979, signs had begun to emerge—in data on loan delinquencies and bankruptcies—that families were encountering some difficulty in meeting their financial obligations.

The heavy debt burdens may have combined with the higher level of interest rates to damp use of household credit in the fourth quarter. In addition, however, credit availability became a significant factor as institutions tightened credit standards or curtailed lending in response to greater uncertainty about financial prospects and reduced earnings margins. Credit supplies were most severely constrained in those parts of the country with low usury ceilings; the year-end federal legislation providing a three-month override of state usury ceilings may provide some relief for borrowers in such areas.

Borrowing by nonfinancial business firms increased substantially in 1979, as the growth of outlays for inventories and fixed capital outstripped the advance in internal funds generated. This "financing gap" was particularly large during the first three quarters of the year; in the fourth quarter the gap narrowed somewhat with the slowing of inventory accumulation.

Increases in business loans at banks and in net issuance of commercial paper accounted for most of the growth in borrowing by nonfinancial enterprises. Mortgage loans rose somewhat, reflecting the strength of commercial construction, but corporate bond issuance remained around the moderate 1978 level as companies were reluctant to incur long-term debts at historically high interest rates. The relatively heavy reliance on shorter-term borrowings was reflected in a further deterioration of traditional measures of balance-sheet strength. Flow of funds account estimates for nonfinancial corporations indicate that the aggregate ratio of short-term debt to total debt has reached a record high and that the ratio of liquid assets to current liabilities has reached a low level seen before only in 1974. Perhaps partly for this reason, the dropoff in business borrowing in the fourth quarter was concentrated in the short-term area.

Foreign Exchange Markets and the Dollar

The dollar was quite strong on foreign exchange markets in the first five months of 1979, following the tightening of U.S. money market conditions and the announcement by the Treasury and the Federal Reserve of a dollar support program on November 1, 1978. The dollar rose more than 5 percent on a trade-weighted average basis, gaining 5½ percent against the mark, 7½ percent against the Swiss franc, and 14½ percent against the yen between the end of December and the end of May. During this period, U.S. and foreign monetary authorities entered the markets to moderate exchange rate movements, reversing in the process a large portion of their 1978 intervention purchases of dollars. By the end of May the Federal Reserve had repaid all its outstanding swap debts to other central banks, the Treasury had reconstituted all of the balances it had raised through the issuance of notes denominated in foreign currencies, and the Federal Reserve and the Treasury both completed repayment of their pre-1971 Swiss franc indebtedness.

In early summer, however, the dollar weakened, mainly in response to the failure of U.S. inflation to moderate and to the absence of a concerted U.S. program to solve its energy problem. The dollar's weakness intensified in early June and continued into September, despite a series of increases in the Federal Reserve's discount rate, a gradual rise in the federal funds rate, and renewed heavy exchange-market intervention in support of the dollar.

By early October the dollar had retraced all of its rebound of earlier in the year, and selling pressures were mounting rapidly amidst accelerating price rises in gold and other commodities and other signs of a worsening in expectations of inflation. In these circumstances, the Federal Reserve's announcement on October 6 of a series of anti-inflation measures—described in the preceding section—was accompanied by a sharp advance of the dollar on exchange markets. By mid-November, the dollar had risen about 4 percent on a weighted-average basis from its early October lows. Foreign monetary authorities subsequently tightened their policies to deal with similar inflationary pressures abroad, and the dollar lost strength. From mid-November through the end of the year the dollar drifted lower in thin markets unsettled by developments associated with the taking of American hostages in Iran. At year-end, the dollar stood close to its early October lows on a weighted-average basis. The dollar has been relatively stable in recent weeks, with trading rather light in an environment of heightened international political uncertainties.

Report on July 22, 1980

The Outlook for the Economy and Monetary Policy Objectives

The Outlook for the Economy

The economy moved into recession in the first half of this year. A cyclical downturn had been widely anticipated for some time, but the decline in spending, output, and employment, once under way, has been steeper than most analysts had foreseen. The second-quarter decrease in real gross national product, at an annual rate of about 9 percent according to the Commerce Department's preliminary estimate, was considerably sharper than in the initial quarters of other post-war recessions.

The slump in activity has been most pronounced in the housing and auto industries—the latter sector being adversely affected by structural problems as well as by general cyclical pressures. But the decline has not been limited to these sectors. Retail sales excluding autos have dropped considerably since January, and business outlays for equipment and new construction also have fallen.

The very sharp curtailment of spending on houses and consumer goods and services in the current downturn probably is attributable in large part to the cumulative effect of inflation on consumers' financial well-being. Real disposable personal income was virtually flat in 1979 and has declined appreciably this year. Earlier, consumers had reduced their rate of saving in the face of shortfalls in real income in an effort to maintain consumption standards and in anticipation of inflation. This was accomplished by further rapid growth in installment and mortgage credit in the late stages of the recent expansion, but with the result that debt service burdens— which already were at high levels historically—continued to climb. Sharply higher interest rates and generally more stringent credit terms in late 1979 and early 1980 acted as additional deterrents to spending, encouraging households in their efforts to reduce debt and to rebuild savings.

The falloff in final sales has caused businessmen to spend more cautiously. This tendency has been reinforced by financial factors as well. The liquidity position of businesses had deteriorated appreciably during the expansion, particularly in the latter stages when there was a surge in short-term borrowing; many firms now are making strong efforts to restructure balance sheets.

The unexpected rapidity of the current downturn thus far has led analysts to reassess their view of the prospects for economic activity in the period ahead. Significant disagreement has arisen with regard to whether recovery will be prompt and strong, with the recent relaxation of credit market conditions encouraging a resumption of normal spending patterns, or whether the cyclical adjustment will be prolonged and the subsequent upturn possibly sluggish. The experience of the past year or so has demonstrated the hazards of forecasting, and the uncertainties at the present time clearly are substantial. Much will depend, for example, on the perceptions of businessmen about the longer-range prospects for demand and the attractiveness of investment, the response of consumers to the 1981-model-year automobiles, and the strength of the rebound in housing that may develop in the wake of the recent easing in mortgage market conditions.

There are signs that the contraction in some sectors may be nearing an end, but these are far from conclusive. Retail sales in June turned up slightly after four months of sharp decline; in the first ten days of July auto sales were at the strongest pace in three months. Housing starts and sales of new homes strengthened in the most recent months for which data are available.

In reflection of the prevailing uncertainties, there is a considerable range of views among the members of the Federal Open Market Committee (FOMC) regarding the movement of major economic variables over the remainder of the year. Most of the members believe that the recession probably will persist into the fourth quarter, with a cumulative net drop in real gross national product less than that in the downslide of 1973-75. Although the decline should slow in the months ahead, employment may be cut back further, and the unemployment rate could rise beyond 8½ percent by year-end. The increasing slack in labor markets and in industrial capacity utilization should at the same time help to moderate inflationary pressures.

The accompanying table presents ranges for key economic variables that generally encompass the judgments of the individual FOMC members about the probable performance of the economy this year and in 1981.

Item	Actual	Projected	
	1979	1980	1981
Change from fourth quarter to fourth quarter, percent			
Nominal GNP	9.9	5 to 7½	8½ to 11½
Real GNP	1.0	-5 to -2½	½ to 3
Implicit GNP deflator	8.9	9 to 10	7¾ to 9½
Average level in fourth quarter, percent			
Unemployment rate	5.9	8½ to 9¼	8 to 9¼

The outlook for 1981 is especially uncertain at the current time. Economic and financial developments over the next six months should lay the groundwork for the recovery anticipated in 1981. But, in addition, any actions taken in the fiscal arena would have an impact on the path of recovery. The projections presented in the table, which do not assume a tax cut in the next year, indicate a turnaround in economic activity—although there is a considerable range of views concerning the potential strength of the recovery. On balance, the forecast is for a moderate rebound in real GNP, accompanied by some further slackening in the pace of inflation. Unemployment, however, is likely to remain high throughout the year.

Should there be a tax cut in 1981, the impact on economic performance will, of course, depend on its timing and composition. There is a distinct —and very troubling—possibility that a poorly designed tax reduction, or one not coupled with adequate restraint on the expenditure side, might give rise to added inflationary and financial pressures that would in time dissipate the beneficial short-term effects on the fiscal stimulus. Any indication that the Congress and the administration were moving away from a commitment to rigorous fiscal discipline would run the risk of reinvigorating the inflationary expectations that have played such a major role in the economy's difficulties. The Committee thus feels it important that the question of a tax cut be approached cautiously; if a tax cut ultimately is enacted, it should be carefully structured to enhance the productive potential of our economy and to yield the greatest relief from cost and price pressures over the longer run.

Monetary Policy Objectives

The task for monetary policy—and for stabilization policy generally—in the current circumstances obviously is a difficult one. Recession naturally summons forth calls for stimulus to aggregate demand. The prevailing high level of unemployment and the exceptional weakness apparent in particular industries and sectors of our economy certainly must be given careful consideration in the formulation of public policy. But caution must be exercised in the application of any broad countercyclical stimulus, especially in the present environment of persistent inflationary pressures. Indeed, there is no clearer lesson from the experience of the past decade and a half than that excessive stimulus is detrimental to the objective of achieving and sustaining noninflationary, balanced growth.

A primary and continuing goal of monetary policy must be to curb the accelerating inflationary cycle. It now appears that some progress is beginning to be made in that direction. Price increases have slowed considerably from the pace of early in the year, in part reflecting some relief in the food and energy sectors, but also as a result of the drop in demand pressures. In addition, recent attitudinal surveys point to a reduction in inflationary expectations. The continuation of this trend in expectations will result in a greatly improved economic and financial environment, one more conducive to long-term growth. We already have witnessed one benefit of an easing of inflationary fears: a substantial decline in long-term interest rates from their highs earlier this year and a revitalization of the bond markets. The Federal Reserve's pursuit of a policy of monetary restraint—evidenced this year by a moderation of money growth—has been an important factor in this turn in expectations; a sustained commitment to the attainment of non-inflationary rates of money and credit growth is essential if this progress is to be extended.

Despite the improvement that has occurred, however, inflationary forces are far from subdued. The past years have left a legacy of adverse cost trends that will not be reversed quickly. Moreover, more extreme inflationary expectations easily could be reignited. In establishing its plans for growth in the monetary aggregates, the Federal Reserve will continue to place high priority on reducing inflation, believing that this is essential to fostering a sound and sustained recovery. Over the long term, a reduction in the underlying rate of inflation is essential for a strong U.S. economy, for encouraging the saving we will need to finance adequate capital investment, and for maintaining the position of the dollar in international markets.

But it is clear also that if inflation is to be restrained without undue disruption of economic activity we cannot rely solely on monetary policies. For example, fiscal discipline is essential to ensure that excessive pressure is not placed on the financial and real resources of the economy. The structure of our tax system should be examined with an eye to the incentives it provides for productivity-expanding research and capital formation. And the full range of governmental policies should be reviewed to ensure that they do not add needlessly to costs and do not stunt innovation and competition.

Money and Credit Growth in 1980 and 1981

In February the Federal Reserve reported to the Congress ranges of growth for the monetary aggregates in 1980 that it believed to be consistent with the continuing objective of reducing inflationary pressures over time while providing for sustainable growth in the nation's production of goods and services. These ranges anticipated a substantial deceleration in monetary growth in 1980 from the pace of the preceding year. Measured from the fourth quarter of 1979 to the fourth quarter of 1980, the following ranges were adopted: for M-1A, 3½ to 6 percent; for M-1B, 4 to 6½ percent; for M-2, 6 to 9 percent; and for M-3, 6½ to 9½ percent. The associated range for bank credit expansion was 6 to 9 percent.

During the first half of 1980, growth of the monetary aggregates slowed considerably from the 1979 pace. The deceleration was particularly marked for the narrower aggregates, M-1A and M-1B, which grew at rates below the lower limits of their longer-run ranges—at annual rates of about ½ and 1¾ percent respectively from the fourth quarter of 1979 to the second quarter of 1980. (M-1A is currency and demand deposits held by the public, while M-1B includes checkable interest-bearing deposits as well.) At the same time, the broader aggregates, M-2 and M-3, grew at annual rates of 6½ and 6¾ percent respectively, which are somewhat above the lower limits of their ranges. In fact, by June, M-2—which includes money market fund shares and all deposits except large certificates of deposit (CDs) at banks and thrift institutions—was around the midpoint of its longer-run range, and M-3 slightly below, while the narrower aggregates were moving back toward their ranges, following an unusually sharp drop in early spring.

The contraction in the narrower aggregates during the second quarter was much greater than would have been expected on the basis of the historical relationships among money, income, and interest rates. This unusual weakness may have reflected exceptional efforts by the public to pare cash balances, such as have characterized some other periods following a sharp upward adjustment in market interest rates to new record levels. There may also have been an impact from the surge in debt repayments, especially at banks, after the imposition of the credit control program in mid-March, with some of the funds apparently coming out of cash balances. In light of these special circumstances affecting the public's demand for transactions balances, and given the relative strength of the broader aggregates and the usual lags between changes in credit conditions and growth in the narrower aggregates, the FOMC believed it appropriate to foster a more gradual return of M-1 growth to the ranges established earlier.

In connection with reserve-targeting procedures, System open market operations supplied a large volume of nonborrowed reserves over the course of the second quarter. Given the weak demand for money and bank credit, most of the added nonborrowed reserves were used by banks to repay borrowings from the Federal Reserve discount window. Borrowings fell from a high of $2.8 billion on average in March to minimal levels recently, and the easing of bank reserve positions was reflected in a sharp decline in the federal funds rate. From their peaks of late March or early April, short-term interest rates have declined 7 to 9 percentage points and long-term rates by roughly 2 to 3 percentage points.

Expansion in the broader aggregates over the first half of the year reflected the very rapid growth for much of the time in money market mutual fund shares, 6-month money market certificates, and 2½-year small saver certificates, instruments that pay market rates of interest. Late in the period, as short-term market interest rates declined sharply, the contraction in savings deposits at banks and other depository institutions halted, and the outstanding amount of those deposits began to rise. For part of the period, growth in M-3 was sustained also by continued issuance of large time deposits by commercial banks and thrift institutions, which are included in M-3 but not in M-2; however, large time deposits began to contract in late spring as credit demands weakened substantially.

Bank credit growth greatly exceeded the FOMC's range in the first quarter of the year. The second quarter, however, saw a sharp contraction in this measure, and credit growth was well below the FOMC-specified range as of mid-year. Demands for bank loans by households and businesses dropped abruptly in the second quarter, while the banks—concerned about the possible erosion of profit margins by high-cost funds obtained earlier and seeking to conform to the guidelines of the March 14 special credit restraint program—pursued relatively tight lending policies. Businesses, meanwhile, have met a substantial portion of their credit needs through issuance of commercial paper (which serves as a close substitute for bank credit for many large firms), by borrowing in bond markets, and by reducing holdings of liquid assets. Over the half year, the total of credit advanced by banks and in the private short-term money markets rose at an annual rate of around 7½ percent.

At its meeting in July, the Federal Open Market Committee reassessed the ranges it had adopted for monetary growth in 1980 and formulated preliminary goals for 1981. The Committee elected to retain the previously established ranges for the aggregates over the remainder of 1980. This decision by the Committee took into consideration the recent behavior of the money stock measures as well as emerging economic conditions. In this regard it was recognized that, if the public continues to economize on cash balances to an unusual degree in the second half of the year, growth in the narrower aggregates would likely fall toward the lower end of the established ranges.

With respect to the broader aggregates, growth in the second half is likely to place them nearer the midpoints of their respective ranges and, in the case of M-2, quite possibly in the upper half of its range. Recent trends suggest that a continued substantial expansion in the interest-bearing-nontransactions component of M-2 is likely. In the current cyclical environment, consumers have begun to reevaluate their financial positions and have reduced their borrowing and adjusted upward their rate of saving. Thus, if the recent lower level of interest rates persists, the outlook is for an augmented flow of funds to depository institutions along with continued, though slower, growth in money market mutual funds.

The Committee also noted that the recent sharp contraction in bank credit makes it quite likely that this measure will fall below the 6 to 9 percent growth range specified in February. A resumption of bank credit expansion during the second half is anticipated, but the strength of that move will depend to a considerable extent on patterns of corporate finance. The desire for balance sheet restructuring may well continue to mute business loan demands, although weaker corporate cash flows and a narrowing of the spread of the prime rate over commercial paper rates likely will prompt some borrowing at banks. Mortgage loan demands also should begin to recover as the year progresses, and the runoff in consumer loans is expected to abate.

One factor that contributed to the

recent weakness in bank lending was the Board's special credit restraint program. As announced earlier, the program is being phased out this month because there is now no evident need for extraordinary measures to hold bank lending within reasonable bounds. In removing the special controls, the Board has emphasized its intention to continue to maintain aggregate growth in money and credit at rates consistent with a reduction in inflationary pressures.

With regard to monetary policy over the longer run, the FOMC reiterates its intent to seek reduced rates of monetary expansion over coming years, consistent with a return to price stability. While there is broad agreement in the Committee that it is appropriate to plan for some further progress in 1981 toward reduction of the targeted ranges, most members believe it would be premature at this time to set forth precise ranges for each monetary aggregate for next year, given the uncertainty of the economic outlook and institutional changes affecting the relationships among the aggregates. The extent and timing of adjustments in the targets will depend upon an appraisal of the outlook at the end of the year. The appropriate money growth in 1981 relative to 1980 of course will depend to some extent on the outcome in this year—that is, on exactly where in the present ranges the various aggregates fall at year-end.

In addition, the various measures of money will be affected in 1981 by shifts in the demand for different types of financial assets. The introduction of negotiable order of withdrawal (NOW) accounts on a nationwide basis in January will accelerate the shift from regular demand deposits into interest-earning transactions balances, thereby depressing M-1A growth next year. On the other hand, M-1B probably will be boosted somewhat next year by shifts from savings deposits and other interest-bearing assets into NOW accounts. The range for M-1B thus may have to accommodate a period of abnormal growth as the public adjusts to the availability of a new instrument. The experience of the past year and a half with automatic transfer service (ATS) accounts has indicated the difficulty of estimating in advance the public's demand for such balances. Although growth in M-2 and M-3 will not be affected by NOW account movements, these broader aggregates include other relatively new financial instruments, the demand for which is still subject to uncertainty. The behavior of these instruments in coming months will aid the FOMC in determining appropriate growth ranges for the broader aggregates in the 1981 period.

The Administration's Short-Term Economic Goals and the Relationship of Federal Reserve Objectives to those Goals

The administration, in association with its mid-year budget review, has updated its forecast of the behavior of major economic variables for 1980 and 1981. The revised figures are shown in the accompanying table.

These estimates, which the administration has indicated should be viewed as forecasts rather than as goals, show a considerably greater decline in real activity in 1980 than had been anticipated in the January *Economic Report of the President.* The outlook for growth in nominal GNP through year-end has been lowered by a small amount, owing to a somewhat higher anticipated rate of inflation for the four quarters of 1980. The administration's projections for this year fall within the ranges expected by the members of the FOMC.

Item	1980	1981
Change from fourth quarter to fourth quarter, percent		
Nominal GNP	6¾	12½
Real GNP	−3	1½
Implicit price deflator	10	9¾
Average level in fourth quarter, percent		
Unemployment rate	8½	8½

The administration has projected a resumption of output growth next year that places real GNP near the upper end of the range encompassed by the forecasts of the members of the FOMC. At the same time, the administration's estimates place the rate of inflation somewhat above the range of the FOMC members' expectations. (Like the FOMC members' projections, the administration's forecast does not include a tax cut provision for 1981.)

As indicated in the preceding section, the Federal Reserve intends to set monetary growth ranges for 1981 that will help to restrain inflationary pressures in the recovery period. As experience this year illustrates, considerable uncertainty attaches to any analysis of the relationships over relatively short periods among money, interest rates, and nominal GNP. However, a substantial expansion in demands for goods and services, accompanied by a lack of progress on the inflation front—or worse, an actual increase in inflation or inflationary expectations—would raise the possibility of a considerable firming of conditions in financial markets. Large and prolonged federal deficits would increase that risk. This possibility highlights the urgency of concerted effort by the public and private sectors to reduce the rate of advance of costs and prices and the need to focus any discussions of fiscal action on approaches that would serve to alleviate cost pressures and bolster productivity.

A Review of Recent Economic and Financial Developments

Economic Activity During the First Half of 1980

Economic activity turned down early this year following almost five years of expansion. Between January and June, industrial production fell 7½ percent, unemployment declined about 1¼ million, and the unemployment rate jumped 1½ percentage points. Real gross national product is estimated to have fallen at an annual rate of 9.1 percent in the second quarter, with the decline in activity widespread among major sectors of the economy. Retail sales have decreased substantially since January, housing starts have dropped to near-record postwar lows, and business outlays for equipment and new construction have declined. Although businesses were cautious in building inventories during the expansion, the severity of the recent decline in final sales has led to some involuntary stock accumulation; as in past cycles, the resulting efforts to curb inventory growth have played a significant role in the weakening of orders and production.

Recent reductions in aggregate demand, coupled with a slower rise of energy prices, meanwhile have brought some moderation in the overall pace of inflation. The producer and consumer price indexes have risen at much less rapid rates in the past few months than they did earlier in the year. Moreover, there are indications from consumer surveys that inflationary expectations have been lowered. Nevertheless, inflation still possesses a strong momentum, with unit labor costs continuing on a steep upward trend.

Personal consumption expenditures. Personal consumption expenditures fell sharply in real terms during the first half. A number of adverse trends had characterized household finances for some time prior to the beginning of 1980. Real disposable income had stagnated after 1978, household liquidity positions had weakened as liabilities increased faster than financial assets after late 1976, and a near-record proportion of disposable income had been committed to the servicing of debt. Moreover, consumer confidence, as measured by opinion surveys, had deteriorated to levels last seen in the 1973-75 recession. In the light of these trends, a downward adjustment of consumer outlays might have been expected last year; the fact that it did not occur appears attributable in part to growing expectations of inflation that fostered a buy-in-advance psychology.

Between January and May, retail sales fell 6½ percent in nominal terms and more than 9½ percent in real terms—the sharpest four-month drop in the postwar period. Preliminary estimates for June, however, indicate that sales moved up somewhat. As in past recessions, large decreases in sales this year have occurred for the relatively discretionary items of consumer expenditure. Automobile sales in June averaged only 7.6 million units at an annual rate, close to the May pace, which was the slowest since late 1974. Furniture and appliance sales also are down sharply this year, in part because of the fall in housing sales. But weakness in consumer outlays has not been confined to the durable goods sector. Purchases of nondurables in real terms also have been falling since late last year, with sizable declines recorded for clothing and general merchandise.

Since January, real disposable income has decreased substantially as employment and hours worked have fallen and prices have continued upward at a rapid pace; nonetheless, the retrenchment by consumers has lifted the saving rate somewhat above the extraordinarily low level of the fourth quarter of last year. It still remains low by historical standards, however, and uncertainty about job and income prospects may well prompt households to enlarge precautionary savings, thereby contributing further to the weakness in personal consumption expenditures.

Residential construction. Homebuilding activity has experienced a severe decline. Housing starts, which averaged nearly 1¾ million units at an annual rate during the first nine months of 1979, began to fall sharply last autumn. By December, starts were at a 1½-million-unit pace, and by May they had declined to a rate of almost 900,000. June saw a pickup in starts to a 1¼ million annual rate.

In the single-family sector, starts dropped 45 percent between the third quarter of 1979 and the second quarter of this year. Although demographic factors remained quite favorable during this period, the demand for such dwellings was curtailed by the increased cost of homeownership associated with higher house prices and the rapid rise in mortgage interest rates. The monthly cost of interest and principal on an average-priced new home financed with a conventional mortgage rose to $700 in May—a third higher than six months earlier and 50 percent above the same month of 1979. Households probably were increasingly reluctant to undertake such heavy financial obligations, especially as income and employment conditions weakened this year.

Home sales have dropped almost 40 percent from the pace of last summer. Although production adjustments have reduced the number of unsold new single-family dwellings on the market, these unsold units bulk larger relative to the recent slower rate of sales. At the May sales pace, which was up sharply from April, there was almost a nine-month supply of unsold new single-family units on the market. The pickup in sales in May is perhaps a sign of some increased interest on the part of homebuyers, prompted by the recent easing in financial markets; however, the still large overhang of unsold homes is likely to discourage a quick resumption of building in many localities.

Multifamily housing starts began declining sharply late last year and in the second quarter were off about 35 percent from the already-reduced pace of the third quarter of 1979. The decline in this sector has been less severe than in the 1973–75 period, as low vacancy rates in many areas and an acceleration in rent increases beginning in late 1979 have given builders an incentive to sustain a significant level of apartment construction in the face of high construction costs and tight financial conditions. In addition, demands for condominiums—a lower-cost alternative to single-family homeownership—have provided support to multiunit activity.

Business spending. Business spending on plant and equipment has slowed in recent months as firms have sought to avoid expanding capacity at the onset of a recession. Spending on nonresidential structures, which accounted for much of the gain in investment during 1979, peaked in January and declined substantially in the following months. Business purchases of trucks and automobiles also have been falling since early this year, as have outlays for other capital equipment.

Weakness in capital spending in the first half of the year—as well as in forward-looking indicators of investment activity such as surveys, contruction contracts, and equipment orders—probably reflected businessmen's anticipations that sales may remain sluggish for a while. In addition, corporate cash flows are diminishing, and with liquidity positions already strained in many instances, there may be a reluctance to undertake additional projects requiring external financing. Although interest rates have fallen dramatically from the high levels reached earlier this year, growing excess plant capacity suggests the likelihood of further decreases in real outlays, while firms take advantage of lower long-term rates to restructure their balance sheets.

Despite sizable cutbacks in production, some involuntary inventory accumulation appears to have occurred this spring as a consequence of the steep fall in sales. The stock-sales ratio for all manufacturing and trade in real terms rose only moderately during the first quarter, but climbed appreciably in April and May to near the level of late 1974. Since the start of the year, substantial increases in the ratio have been registered in most major industries with especially large rises for primary metals manufacturers, furniture and appliance retailers, and the motor vehicle industry. Auto sales incentive programs and production adjustment in the first quarter of 1980 largely eliminated excessive stocks that had resulted from last summer's gasoline shortages. However, beginning in mid-April, automobile sales plummeted, and despite further curtailments of production, some overhang of stocks at dealers reappeared.

Government. Spending at all levels of government has been restrained in recent months. Total federal expenditures, which grew rapidly in the early months of the year, moderated in the second quarter largely as a result of the March budget cuts. Growth in receipts fell off much more, however, as weakness in personal income and profits offset the impact of additional revenue from the windfall profits tax on oil producers. As a result, the federal deficit on a national income accounts basis probably deepened by about $30 billion, at an annual rate, between the fourth quarter of 1979 and the second quarter of 1980. However, the high-employment budget, a better indicator of the thrust of discretionary fiscal policy, showed a movement toward restraint during this period.

State and local government spending fell in real terms during the first half of 1980, as governmental units curtailed outlays in response to the slower growth of revenues caused by tax cuts enacted in 1979, the weakening economy, and the March reductions of federal grants-in-aid. The reduced pace of spending was most pronounced for construction activity because federal funding was cut back and municipal bond issuance was constrained in the first quarter by high interest rates. Despite the downward adjustments of outlays, the aggregate operation deficit of the state and local government sector apparently widened considerably in the spring.

International trade and payments. Real exports of goods and services continued to grow rapidly in the first quarter of 1980, but the rise appears to have slowed somewhat in the second quarter. The deceleration largely reflected the slowing of economic expansion abroad and the fading of the impact of the 1977-78 real depreciation of the dollar. All of the growth in the first half was concentrated in nonagricultural exports; agricultural shipments were reduced, partly because of the embargo on additional grain sales to the Soviet Union imposed by the President in January.

The volume of imports, meanwhile, began to fall off as U.S. economic activity slackened and as higher prices and greater fuel efficiency acted to restrain oil imports. The volume of non-oil imports rose slightly on balance in the first half of 1980, but all of the increase was in the first quarter. The quantity of oil imports fell, apparently reaching its lowest rate in four years in the second quarter. Despite a declining volume of oil imports in the first quarter, higher prices by the Organization of Petroleum Exporting Countries (OPEC) resulted in a continuation of the rapid growth in the dollar value of oil imports. The oil import bill nearly doubled between the fourth quarter of 1978 and the first quarter of 1980; in the second quarter the value of oil imports changed little as lower volume offset a further rise in import prices.

The U.S. merchandise trade deficit increased about $6½ billion at an annual rate in the first quarter of this year from the rate in the last quarter of 1979. The current account moved from a deficit of about $7 billion at an annual rate in the fourth quarter, and near balance for the year 1979, to a deficit of about $10 billion in the first quarter of 1980. Higher foreign earnings of U.S. oil companies offset part of the rise in the merchandise trade deficit. Partial data indicate that the trade and current-account deficits narrowed in the second quarter.

Labor Markets and Capacity Utilization

Labor demand was relatively well-maintained early in the year, but it fell off steeply in the spring as firms responded to the sharp declines in sales by cutting their work forces and shortening workweeks. Between January and June, the number of workers on the payrolls of nonfarm establishments fell almost 950,000; total employment, as measured by the household survey, fell more than 1¼ million. With layoffs rising, the nation's jobless rate jumped from 6¼ percent in January to 7¾ percent in May and June.

Much of the cutback in employment occurred in the construction sector and in durable goods manufacturing, especially motor vehicle and related industries. By June, the number of auto workers on indefinite layoff was nearly 250,000 (about 30 percent of total hourly workers in the industry), and substantial layoffs had occurred in the steel and tire industries as well. Construction employment began to drop early in the year, and subsequently suppliers of building materials also reduced their payrolls. During the spring, however, weakness in labor demand began to spread throughout the economy; employment at trade establishments dropped 190,000 over the second quarter, and in June payrolls in the service-producing sector registered the first monthly decline since 1975.

In addition to trimming payrolls, employers have curtailed work schedules in light of the weakening of sales. Since January, the average workweek at manufacturing establishments has been shortened almost 1¼ hours. More generally, the number of workers on part-time schedules for economic reasons rose sharply in the second quarter, with former full-time jobholders accounting for most of the increase.

The rise in joblessness has been widespread among demographic and occupational groups, with especially large increases reported among adult males. Since December, the jobless rate among men has climbed almost 2½ percentage points, compared with an increase of ¾ percentage point for adult women, and June marked the first time in two decades that the rate for men was higher than that for women. Unemployment among blue-collar workers rose sharply to an 11½ percent rate in June, the highest since September 1975. In contrast, unemployment rates among white-collar workers have increased only marginally since the end of 1979.

The adjustments in output by firms, especially in the second quarter, were reflected in a sharp decline in the index of industrial production. Between January and June, industrial production fell nearly 7½ percent. Production declines in auto-related industries and in industries supplying construction materials began early in the year, but by late spring cutbacks were occurring in most other industries as well. Among manufacturing firms, capacity utilization in June dropped to 76 percent, almost 11 percentage points below its 1979 peak.

Prices, Wages and Productivity

After exploding upward in the early months of the year, rates of price increase moderated significantly in the second quarter. The improvement resulted primarily from a stabilizing of energy prices and from declines in the prices of nonferrous metals, after a flurry of speculative activity earlier in the year. Increases in the prices of construction materials and components also slowed noticeably in the second quarter with the decline in activity in the housing sector.

In the energy area, retail prices surged in January and February, in large part the result of the hike in OPEC prices that occurred in late 1979, but the pace of increase then slowed noticeably in the spring, as inventories reached near-record levels and demand continued to drop. The increase in energy prices also moderated at the producer level. Nonetheless, indirect effects of earlier increases in the prices of fuels and petroleum feedstocks were still evident through the end of June in items such as plastics and rubber products, industrial chemicals, and household supplies. Moreover, a number of factors—including the latest increases in OPEC prices, the curtailment of gasoline production, and the progressive decontrol of crude oil prices—suggest that further relief in the energy area is not to be expected.

Food prices generally have exerted a moderating influence on aggregate price measures since the beginning of the year. At the producer level, finished food prices fell at about a 4½ percent annual rate between December and June. Steep drops in wholesale prices through May—particularly for livestock—alleviated cost pressures at the retail level, contributing to relatively stable retail food prices since the end of last year. However, recent developments in the markets for livestock and fresh produce indicate that food prices also are likely to rise more rapidly in the second half of the year.

Inflationary pressures have persisted in sectors outside food and energy since the beginning of the year. In the consumer price index, increases in the homeownership component have been particularly large, as the measures of mortgage rates and home purchase prices both advanced rapidly in the first half of this year; the recent easing of mortgage rates will likely hold down increases in the consumer price index during the next few months. In the producer price index, prices of capital equipment accelerated in the first half of 1980 from the already rapid pace of 1979.

Labor cost pressures remained intense in the first half of 1980, as compensation increases were substantial while productivity declined further. Output per hour in the private nonfarm business sector dropped at about a 1½ percent annual rate in the first quarter, after falling 2 percent over the preceding year. At the same time, hourly compensation accelerated to a 10¼ percent annual rate, so that the unit labor costs of nonfarm businesses rose at about an 11¾ percent rate in the first quarter. Preliminary data for the second quarter suggest that unit labor costs continued to rise rapidly, as productivity contracted further. Although cyclical reductions in overtime and the changing employment mix may restrain the growth in total compensation somewhat in coming months, wage demands are likely to remain strong, especially in light of past increases in consumer prices. Thus, upward pressures on unit labor costs will probably remain substantial over the near term.

Financial Developments During the First Half of 1980

Interest rates. Market rates of interest moved sharply higher in the early months of 1980, exceeding previous record levels and peaking around the end of the first quarter. These increases were largely reversed in the second quarter amid a substantial downslide in economic activity and contracting demands for money and credit. The upward pressure on yields at the turn of the year resulted from a combination of factors, including a deterioration in inflationary expectations as actual price increases accelerated in January and February, the failure of incoming data to confirm the long-anticipated downturn in activity, and international political developments that raised the likelihood of an increase in federal deficit spending. In February, moreover, growth in money and credit surged, creating demands for bank reserves well in excess of the provision of nonborrowed reserves consistent with the Federal Reserve's target ranges for growth in the monetary aggregates. In the Treasury bill market, in particular, the resulting rise in short-term interest rates was reinforced by large sales of securities by foreign institutions to finance intervention in foreign exchange markets.

On March 14, the Board of Governors took actions of a temporary nature designed to reinforce the effectiveness of the measures announced in October 1979 and thus to provide greater assurance that the monetary goals reported to the Congress in February would be met. These actions, some of which were taken under the authority of the Credit Control Act as part of a broad government effort aimed at reducing inflationary pressures, included the following: (1) a special credit restraint program directed toward limiting the growth in loans to U.S. customers by commercial banks and finance companies to ranges consistent with the monetary and credit objectives of the Federal Reserve; (2) a special deposit requirement for all types of lenders on increases in certain categories of consumer credit; (3) an increase in the marginal reserve requirement on managed liabilities of large member banks and U.S. branches and agencies of large foreign banks; (4) a special deposit requirement on increases in managed liabilities of large nonmember banks; (5) a special deposit requirement on increases in total assets of money market mutual funds; and (6) a surcharge of 3 percentage points on frequent borrowing by large member banks from Federal Reserve Banks.

These measures hastened the movement toward reduced credit availability already in train at many lenders, and apparently increased the resolve of consumers to curtail their use of credit. In subsequent weeks, incoming data revealed a substantial slackening in money and credit growth to well within the Federal Reserve's objectives. In light of these developments, the Board amended the special credit program: on May 6 the 3-percentage-point surcharge on discount borrowing by large banks was eliminated, and on May 22 special deposit requirements were reduced by half and the special credit restraint guidelines were modified. On July 3 the final phaseout of the program was announced.

The rise in most interest rates came to a halt in late March and early April, and yields began to move down as demands for money and credit dropped abruptly in response to developing slack in the economy. Most private short-term rates fell 7 to 9 percentage points, to their lowest levels since the spring of 1978. In long-term securities markets, bond yields retraced most or all of the increases recorded earlier in the year, as market participants appeared to have lowered their expectations of inflation. The restraining posture of monetary and fiscal policy, as well as moderating rates of price increase in the cyclical downturn, has contributed to this improved outlook for price changes.

Foreign exchange markets and the dollar. Movements in U.S. interest rates greatly influenced fluctuations in the foreign exchange value of the dollar over the first half of 1980. The dollar was in strong demand early in the year when U.S. interest rates rose sharply. The growing perception by market participants of accelerating inflation and worsening payments deficits abroad gave added impetus to the dollar's rise over this period, as did the announcement of credit control measures on March 14. Authorities in a number of foreign countries also moved to tighten monetary conditions, but the resulting increase in foreign interest rates lagged well behind that of U.S. rates. The strengthening in the foreign exchange value of the dollar in February and March was moderated somewhat by substantial intervention activities by U.S. and foreign monetary authorities.

The peaking and subsequent steep decline in U.S. interest rates in early April triggered heavy selling pressure on the dollar in international markets, and the dollar's foreign exchange value fell in the April to June period. Foreign and U.S. monetary authorities intervened to moderate this decline by making net purchases of dollars. Even so, by the end of June earlier gains were entirely erased, and the weighted-average exchange value of the dollar at midyear was little changed from its value at the beginning of the year.

Domestic credit flows. Net funds raised in credit markets by domestic nonfinancial sectors of the U.S. economy totaled a sizable $391 billion at an annual rate in the first quarter of 1980, but contracted sharply to an estimated $193 billion in the second period. This exceptionally large decline in borrowing reflected in large part the recent sudden weakening in production and sales activity; in addition, monetary restraint, supplemented by the special policy actions of mid-March, contributed to tauter credit terms and reduced availability of funds at many lenders.

In the private sector, the volume of funds raised in the first quarter was greatly enlarged by a surge in borrowing on the part of nonfinancial business firms. Some of this increased borrowing reflected needs to finance growth in inventories and fixed capital outlays, as the gap between such expenditures and internally generated funds of nonfinancial corporations widened. But fears that unchecked inflation would lead to the imposition of credit controls and a consequent reduction in credit availability apparently led to a burst of anticipatory borrowing by firms as well. As a result, corporations added substantially to their holdings of liquid assets in the first quarter and appear to have drawn down these holdings in subsequent months.

As interest rates moved up rapidly early in the year, businesses concentrated their credit demands in short- and intermediate-term markets, with borrowing at banks and in the commercial paper markets especially heavy. Corporate bond financing remained relatively low as businesses, especially industrial firms, were reluctant to issue long-term debt at historically high yields. This pattern of corporate financing shifted dramatically, however, when interest rates dropped rapidly in the spring. Public offerings of longer-term corporate bonds accelerated to unprecedented levels, with the proceeds from many of these issues being used to pay down bank debt.

After March, commercial banks—concerned both about pressures on their earnings margins as interest rates dropped and about meeting the loan growth guidelines of the voluntary special credit restraint program—tended to discourage business borrowers. In particular, adjustments in the bank prime lending rate lagged substantially behind downward movements in other market rates, greatly increasing the relative cost of this source of financing. As a result of the relatively high cost of bank credit, coupled with a desire of businesses to adjust their balance sheets following the heavy reliance on short-term debt in previous months, business loans at banks contracted markedly in the second quarter. Although commercial paper issuance by firms remained very large, total short- and intermediate-term business credit demands in the second quarter moderated appreciably from the first-quarter pace. Late in the second quarter, the prime rate began to move down, narrowing the gap with market rates somewhat; survey data, furthermore, suggest that banks in May were making a large share of short-term business loans at below-prime interest rates.

In the household sector, consumers greatly reduced their use of installment credit during the first half. The large growth of consumer installment and mortgage debt in 1979—both in absolute terms and in relation to disposable income—had produced a marked deterioration in household liquidity. The combination of resulting heavy debt burdens, high interest rates, and, in some states, restrictive usury ceilings acted to slow growth of installment credit in late 1979 and the first quarter of 1980. The volume of outstanding installment credit contracted in the second quarter as consumers curtailed expenditures and repaid debt against a backdrop of rapidly declining real incomes and rising unemployment. Credit-tightening measures by lenders after the announcement of the credit-control package on March 14 and uncertainty on the part of consumers about the effects of those controls contributed further to the reduction in the use of credit.

Household borrowing in mortgage markets also slowed considerably in the first half. Reduced deposit flows and pressures on earnings margins from rising costs of funds constrained the lending activity of thrift institutions and pushed mortgage rates to record levels in March. Many would-be homebuyers were deterred by the high cost of mortgage credit. More recently, lower market interest rates have helped to reduce cost pressures for thrift institutions and have contributed to a pickup in deposit flows. Sharp drops in mortgage rates since early April and reports of some easing in nonrate terms suggest that lending institutions have become more active in seeking mortgage loans since early June. But mortgage rates remain high by historical standards, while demands for housing and housing credit continue to be damped by a weak economy and by the liquidity concerns of households; consequently, mortgage commitment activity apparently has remained relatively sluggish.

The Treasury borrowed heavily in credit markets in the first half to finance the combined deficits of the federal government and off-budget agencies. Normal seasonal patterns in federal cash flows associated with the timing of tax receipts led to a concentration of the Treasury's borrowing in the first three months of the year. Although the first-quarter deficit was further deepened this year by unusually large tax refunds associated with overwithholding in 1979, the Treasury was able to even out its borrowing pattern somewhat by permitting its cash balance to drop over the first quarter and then rebuilding it in the second.

In contrast to the federal sector, net borrowing by state and local governments dropped off in the first quarter but accelerated appreciably in the second. Many municipal governments postponed or canceled scheduled bond issues early in the year because of high interest rates; for some government units, these actions were necessitated by the rise of interest rates above statutory limitations. But the volume of tax-exempt financing picked up considerably in the second quarter when interest rates fell and many previously postponed bond issues were brought to market. The financing needs of state and local units generally increased over the first half in response to slower growth of revenues and a consequent widening of their operating deficits. In addition, the volume of tax-exempt securities issued continued to be boosted by offerings of mortgage revenue bonds, designed to finance single-family housing.

Part 2

Records, Operations, and Organization

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Record of Policy Actions of the Board of Governors

Regulation A
(Extensions of Credit by Federal Reserve Banks)

August 6, 1980—Revision

The Board revised Regulation A, effective September 1, 1980, to carry out provisions of the Monetary Control Act of 1980.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Monetary Control Act of 1980 granted access to the Federal Reserve discount window to any depository institution offering transaction accounts or nonpersonal time deposits subject to reserve requirements. Under the revised regulation, as under the current procedures, Federal Reserve credit will be made available chiefly for purposes of meeting an institution's immediate cash or reserve needs; such advances, referred to as adjustment credit, would be expected to be repaid promptly. In addition, the revised regulation sets forth the conditions under which the Federal Reserve will provide extended credit to institutions that need funds over longer periods.

Regulation A
(Extensions of Credit by Federal Reserve Banks),
Regulation D
(Reserves of Member Banks),
Regulation K
(International Banking Operations),
and Regulation Q
(Interest on Deposits)

March 5, 1980—Amendments

The Board amended Regulations A, D, K, and Q, effective September 4, 1980, to implement certain provisions of the International Banking Act of 1978.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.[1]

The Board established reserve requirements and deposit interest rate limitations for federally licensed and federally chartered agencies and branches of foreign banks and state-licensed agencies and branches that have consolidated worldwide banking assets of more than $1 billion. The amendments included the following changes: (1) reserve requirements (Regulation D) and interest rate ceilings (Regulation Q) will be established for agencies and branches identical to those for similar deposits at member banks; (2) credit balances at agencies will be subject to the same reserve requirements as deposits of similar maturity at Edge corporations (Regulation K) and member banks; (3) agencies and branches will have access to all System services; and (4) agencies and branches will have access to the discount window (Regulation A) on the same basis and under the same conditions as is afforded domestic money center member banks.

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[1] On this and subsequent pages, footnote 1 indicates that there was one vacancy on the Board at the time the action was taken.

Regulation C (Home Mortgage Disclosure)

November 26, 1980—Amendments

The Board amended Regulation C, effective December 5, 1980, to require institutions that must make disclosures under the Home Mortgage Disclosure Act to report their mortgage data on a calendar-year rather than a fiscal-year basis.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The change implemented some of the recent amendments to the Home Mortgage Disclosure Act; changes implementing other amendments to the act will be adopted in 1981. In addition to the change in the reporting year, the amendment also established March 31, 1981, as the date by which reports for 1980 and for any portion of 1979 not included in a previous report must be filed.

Regulation D (Reserves of Member Banks)

March 5, 1980—Amendments

These actions are discussed under Regulation A.

March 14, 1980—Amendment and Adoption of a New Regulation

May 22, 1980—Amendments

July 2, 1980—Amendments and Termination of Regulation

These actions are discussed under Credit Restraint.

Regulation D (Reserve Requirements of Depository Institutions)

August 6, 1980—Revision

The Board revised Regulation D, effective November 13, 1980, to carry out provisions of the Monetary Control Act of 1980.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Board revised Regulation D to implement reserve requirement provisions of the Monetary Control Act that imposed reserve requirements on all depository institutions maintaining transaction accounts or nonpersonal time deposits. The revised reserve requirement provisions also apply to Edge Act and Agreement corporations and to U.S. branches and agencies of foreign banks.

In connection with the provisions of the Monetary Control Act, the title of Regulation D was changed from Reserves of Member Banks to Reserve Requirements of Depository Institutions.

August 13, 1980—Amendment

The Board amended Regulation D, effective November 13, 1980, to implement the passthrough provisions of the Monetary Control Act of 1980.

> Votes for this action: Messrs. Volcker, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Schultz.

Under the Monetary Control Act, nonmember depository institutions are required to hold reserves on transaction accounts and nonpersonal time deposits. These reserves may be held with a Federal Home Loan Bank, the Central Liquidity Facility of the National Credit Union Administration, or with any depository institution maintaining its required reserves with a Federal Reserve Bank. The amendment establishes rules for nonmember depository institutions to follow if they pass required reserve balances through another institution to the Federal Reserve and rules for intermediary institutions to follow in handling the reserve balances of others.

Regulation E
(Electronic Fund Transfers)

January 23, 1980—Amendments

The Board amended Regulation E by adding several major sections to implement the Electronic Fund Transfer Act and by revising some of the existing provisions, effective May 10, 1980.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.

The new sections of the regulation specify the following: (1) documentation requirements for electronic fund transfers (EFTs), (2) requirements for notifying consumers about preauthorized credits, (3) procedures for resolving errors, and (4) responsibilities for compliance when certain types of EFT services are provided by an institution other than the institution holding the account.

The Board amended the definition of an electronic fund transfer, as contained in a section adopted in 1979, to exclude payments made by check, draft, or other paper instrument at electronic terminals and to include customer use of automated teller machines for the deposit of cash and checks. The Board also adopted several technical amendments and a clarifying amendment to the section dealing with initial disclosures to specify that the required disclosures must be in a form that can be retained by the consumer.

April 9, 1980—Amendments

The Board amended four provisions of Regulation E pertaining to requirements for terminal receipts and periodic statements. Three were effective May 10, 1980; the fourth delayed the effective date of certain requirements until August 10, 1980.

> Votes for this action: Messrs. Schultz, Wallich, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Messrs. Volcker and Rice.[1]

One of the amendments related to receipts given at cash-dispensing machines. Machines that can dispense cash but cannot provide receipts are exempt from the requirement to provide receipts at the time the transfer is initiated. Institutions that had ordered or installed these machines before February 6, 1980, are allowed to continue using them provided they mail receipts to customers on the next business day.

The other three amendments pertained to the requirements for periodic statements. Some institutions offering electronic fund transfer (EFT) services allow customers to use automated teller machines to make deposits to their accounts. One amendment allows financial institutions to omit from the periodic statement information identifying the location of the terminal used for such deposits. Another revision relates to the disclosure on the periodic statement of charges for electronic transfers. The amendment allows institutions to combine EFT charges with other account charges on the periodic statement. The fourth amendment gives institutions until August 10, 1980, to comply with the requirement that periodic statements indicate the location of the terminal at which a transfer was initiated and the name of any third party to whom or from whom funds were transferred.

May 5, 1980—Amendment

The Board amended Regulation E, effective May 10, 1980, to eliminate a requirement that the receipts given at point-of-sale terminals identify the type of account being charged, if only one account can be accessed at the point of sale by the EFT card.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.[1]

Regulation E requires that transactions made through an electronic terminal be recorded on a receipt specifying which type of account is used—for example, whether a savings or checking account is involved. In transactions involving point-of-sale terminals, compliance with that requirement is difficult because the debit card used in these transactions may not indicate the type of account it accesses.

The Board believed that none of the three alternative resolutions for compliance was practical. One alternative would require the sales clerk to ask the customer the account to be used and record the information manually. A second alternative would involve the issuance of new debit cards indicating the type of account they access. As a third alternative, the information could be obtained through the authorization network associated with the point-of-sale system. The Board believed that each of the alternatives represented an unwarranted burden, and therefore it decided to remove the requirement that receipts for point-of-sale transactions indicate the type of account being used.

September 24, 1980—Amendments

The Board adopted four amendments to Regulation E, effective October 6, 1980, pertaining to intra-institutional transfers and documentation requirements.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Gramley.

One amendment exempts from the regulation transfers between accounts of family members at the same institution. A second change provides an exemption for certain automated teller machines that do not comply with the terminal receipt requirements in the regulation. A few machines permit customers to access more than one account with the same card, but cannot uniquely identify the account used on the terminal receipt; institutions that ordered or purchased such machines before February 6, 1980, the date the regulation became effective, were exempt from that requirement.

The other two amendments are technical. One permits financial institutions to omit from the periodic statement reference to the state in which an electronic transfer was initiated if the transaction was made within 50 miles of the institution's main office. The fourth amendment eliminates a requirement that periodic statements include the code used on terminal receipts to identify any third party to whom or from whom funds were transferred. The code is unnecessary because the name of the third party is given on the periodic statements.

Regulation F (Securities of Member State Banks)

September 17, 1980—Amendments

The Board amended Regulation F, effective November 1, 1980, to conform with changes in comparable regulations of the Securities and Exchange Commission and to simplify the regulatory format.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The amendments prompted by the SEC changes pertained mainly to the form and content of financial statements and to certain disclosures on loans required of officers, majority shareholders, and others. In addition, the Board simplified the regulation by replacing the instructions for preparing financial statements with a reference to the instructions for preparing the reports of condition and of income.

Regulation K (International Banking Operations)

March 5, 1980—Amendments

These actions are discussed under Regulation A.

September 17, 1980—Amendment

The Board amended Regulation K, effective October 2, 1980, by adding a new section to implement the interstate banking provisions of the International Banking Act of 1978.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The new section (Subpart B) of Regulation K sets forth rules governing the activities of branches, agencies, commercial lending companies, and subsidiary banks of foreign banking organizations that operate or seek to operate in more than one state. The rules specify how such an organization may select its "home state" of operation and the circumstances under which it may change its home state and establish offices in other states.

November 12, 1980—Amendments

The Board amended Regulation K, effective November 13, 1980, to change the consent procedures by which banking organizations may make additional investments in their subsidiaries. It also amended the regulation, effective January 3, 1981, to implement provisions in the International Banking Act and the Bank Holding Company Act concerning the nonbanking activities of foreign banking organizations.

> Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None.

The revised consent procedures permit member banks, Edge and Agreement corporations, and bank holding companies, under certain conditions, to make additional investments in the organizations in which they already have an interest without first seeking approval from the Board.

The International Banking Act extended the nonbanking prohibitions of the Bank Holding Company Act to foreign banks operating in the United States through a branch, agency, or commercial lending company. The revisions to Regulation K implement the provisions of the Bank Holding Company Act that grant foreign banks certain exemptions from the nonbanking prohibitions. To qualify for those exemptions, a foreign banking organization must be principally engaged in the banking business outside the United States. The revisions established criteria for determining whether a foreign banking organization meets this test. Organizations that fail to qualify in two consecutive years will no longer be entitled to an exemption; those failing to qualify may petition the Board for specific determination of eligibility.

Foreign banking organizations that qualify for an exemption may engage in certain nonbanking activities that otherwise would be prohibited. In general, such activities are limited to those that are in the same line of business as the foreign organization engages in outside the United States. The Board agreed that resolution of questions regarding whether activities are in the same line of business will be made by reference to the four-digit "establishment" category of the Standard Industrial Classification (SIC). Banking or financial activities (those included in division H of the SIC) usually may be pursued only with specific Board approval.

Regulation L (Management Official Interlocks)

February 27, 1980—Amendments

The Board amended Regulation L, effective May 9, 1980, to add new sections and to clarify existing provisions.

> Votes for this action: Messrs. Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker and Schultz.

In June 1979, when the Board adopted the new Regulation L to implement the Depository Institution Management Interlocks Act, it also proposed for comment additional provisions to complete the regulation. Based partly on the comments received, the Board amended the regulation (1) by providing additional time to terminate prohibited interlocking relationships for institutions that would be faced with a disruptive loss of officers or directors and (2) by changing the definition of "adjacent communities" for purposes of the regulation. In addition, the Board adopted several clarifying or technical amendments pertaining to the following: the types of interlocking relationships that can be grandfathered; the definition of "person" as it applies to corporations or other businesses; and the circumstances that would change the grandfather privileges of an institution.

Regulation Q (Interest on Deposits)

February 26—Amendment

The Board amended Regulation Q, effective February 27, 1980, to establish temporarily for member banks a maximum interest rate ceiling of 11¾ percent on 2½-year certificates of deposit.

> Votes for this action: Messrs. Volcker, Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Schultz.

As of January 1, 1980, depository institutions were permitted to offer a 2½-year certificate of deposit with an interest rate ceiling that would vary according to changes in the yield on Treasury securities of comparable maturities that are auctioned each month. No maximum was imposed on that ceiling. A rise in interest rates, however, threatened to be disruptive to certain financial institutions, particularly those whose assets comprise primarily long-term fixed-rate loans, because such institutions are less able to pay the higher rates over the life of the deposits than are other institutions. Consequently, the Board and the other federal regulators of financial institutions established maximum interest rate ceilings on this category of deposit.

March 5, 1980—Amendments

These actions are discussed under Regulation A.

March 14, 1980—Amendment

The Board amended Regulation Q, effective immediately, to impose interest rate ceilings on certain obligations issued by the parent holding company of a member bank.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.[1]

The amendment, which applied to obligations issued in denominations of less than $100,000 and with maturities of four years or less, imposed interest rate limitations on such obligations similar to those on member bank time deposits of comparable maturities. The action was taken to reduce potential pressures for continued disintermediation from depository institutions, particularly thrift institutions.

Regulation T (Credit by Brokers and Dealers)

February 27, 1980—Amendments

The Board amended Regulation T, effective June 2, 1980, to relieve certain administrative burdens of brokers and dealers and to recognize improvements in information-processing technology.

> Votes for this action: Messrs. Wallich, Coldwell, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Messrs. Volcker and Schultz.

The amendments to Regulation T provided for the following: (1) changing from five business days to seven business days the period within which deposits must be made to a margin account; (2) increasing from $100 to $500 the minimum amount of shortfall in a margin account or special cash account that would require regulatory action by the broker; (3) allowing a securities exchange, association, or other self-regulatory organization to approve requests from brokers or dealers for extensions of time for payment; and (4) permitting the date of the postmark on a request for an extension of time to serve as evidence of timely filing. In connection with the last amendment, the Board also rescinded an interpretation that required the use of the date of receipt of the request (rather than the postmark) as evidence of timely filing.

June 11, 1980—Amendments

The Board amended Regulation T to establish for marketmakers in options a financing rule, similar to the one provided for securities specialists, whereby options specialists may obtain, under certain circumstances, financing on terms more favorable than those available to ordinary customers. In a related action, the Board rescinded an existing special provision that exempted options specialists from the Board's uniform margin requirements, since the amendment provides that exemption directly. Both actions were effective August 11, 1980.

> Votes for these actions: Messrs. Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Wallich.

The Board's securities credit regulations permit stock specialists to finance with broker-dealers their positions in the stocks in which they specialize on terms more advantageous than those available to the public. This concession is provided to help stock specialists maintain fair and orderly markets in their specialty stocks. In the mid-1970s, the Securities and Exchange Commission adopted rules stating that marketmakers in options performed the same functions in the market as stock specialists and should be included in the same regulations. Accordingly, the Board amended Regulation T to extend the specialist credit provisions to exchange-registered options specialists.

In early 1977, the Board temporarily exempted options specialists from a new rule that established uniform margin requirements for the writing of options. With the adoption of a separate rule for options specialists, the special exemption was no longer necessary and the Board therefore rescinded it.

August 6, 1980—Amendment

The Board amended Regulation T, effective November 3, 1980, to allow brokers and dealers to extend credit on mutual fund shares that have been fully paid for.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The Board's securities credit regulations already permitted banks and other lenders to extend credit on mutual fund shares, and this amendment provided similar authority to brokers and dealers.

December 12, 1980—Interpretation

The Board determined that Regulation T does not permit the use of bank depository receipts for gold as the required margin deposit.

> Votes for this action: Messrs. Volcker, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Schultz and Wallich.

The Board had been asked to determine whether bank depository receipts for gold could be used in a margin account. It was argued that since the South African Krugerrand is considered currency and therefore is eligible for use as credit in a margin account, bank depository receipts for gold, being similar in nature to the Krugerrand, also should be eligible for use as a cash credit in a margin account under Regulation T. The relevant provision of Regulation T (permitting the use of foreign currency in an account if the currency is regarded as a commodity) had been adopted when U.S. citizens were prohibited from owning gold. The Board ruled, therefore, that bank depository receipts for gold were not acceptable substitutes for cash in margin accounts.

Regulation Y (Bank Holding Companies and Change in Bank Control)

July 2, 1980—Decisions on Impermissible Nonbanking Activities

The Board decided not to add the underwriting of home mortgage life insurance to the list of nonbanking activities permissible for bank holding companies.

> Votes for this action: Messrs. Volcker, Partee, and Gramley. Vote against this action: Mr. Rice. Abstention: Mr. Schultz. Absent and not voting: Mr. Wallich and Mrs. Teeters.

The Board also decided that the provision of key entry services on a contract basis was not a permissible activity for bank holding companies.

> Votes for this action: Messrs. Volcker, Schultz, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich and Mrs. Teeters.

In its determination that underwriting mortgage life insurance was not permissible for bank holding companies, the Board noted that many insurance companies provide mortgage life coverage and that there was no reason to conclude that the activity was closely related to banking. Although holding companies are permitted to underwrite credit life and credit accident and health insurance, the Board distinguished between those types of insurance and mortgage life insurance. Credit life insurance generally has been provided only by the lender; mortgage insurance, on the other hand, is more like term insurance and is available from many sources. It was noted that obtaining credit life insurance was almost simultaneous with consummating the loan; with mortgage life insurance, however, the two transactions are more likely to be separate.

Governor Rice dissented from this action because he preferred to delay a decision on whether the activity was closely related to banking until public comment could be sought.

In the second action, the Board considered an application by a holding company to retain a data processing subsidiary whose activities included providing contract key entry services. The terms of that service call for the subsidiary to receive financial information from a customer and to convert the data into a medium usable by the customer's processing equipment—either key-punched cards or magnetic cards, tapes, or discs. After the data have been converted to a usable format, the information is returned to the customer for processing on its own system.

The Board determined that key entry services were not closely related to banking. The service was not in a traditional area of banking expertise nor was it an integral part of other data processing services that the subsidiary provided. Thus, the Board decided that providing such services should not be an activity permissible for bank holding companies.

August 6, 1980—Interpretation

The Board issued an interpretation of Regulation Y, effective August 11, 1980, concerning nonbanking activities permissible for bank holding companies.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The interpretation allows a bank holding company to form a subsidiary to perform services for other subsidiaries within the organization if the holding company itself can perform those services directly.

October 23, 1980—Amendment

The Board amended Regulation Y, effective December 31, 1980, to add the performance of real estate appraisals to the list of activities permissible for bank holding companies.

Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Gramley. Votes against this action: None. Absent and not voting: Messrs. Volcker and Rice.

The amendment allows bank holding companies to perform appraisals of real estate, including single-family residences, upon proper application to the Board.

Regulation Z (Truth in Lending)

May 14, 1980—Amendments

The Board approved three amendments to Regulation Z, effective May 21, 1980, in conjunction with provisions of the Truth in Lending Simplification and Reform Act of 1980.

Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Volcker.[1]

The Simplification Act required that the Board adopt a revised Regulation Z by April 1, 1981; however, it permitted simplified procedures to become effective more promptly. In April 1980, the Board had proposed for comment a revised regulation, and in May it adopted three simplifying amendments: (1) to exempt all agricultural credit from the disclosure requirements of the regulation; (2) to eliminate the disclosure requirements in periodic statements provided by lenders in connection with closed-end credit transactions; and (3) to continue a provision, which otherwise would have expired May 31, 1980, that governs a consumer's right to rescind a transaction made under an open-end credit plan secured by the consumer's residence.

July 23—Amendment

The Board amended Regulation Z to increase temporarily the tolerance for error in disclosing annual percentage rates for irregular mortgage transactions.

Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Volcker.

A congressional conference report issued in conjunction with passage of the Truth in Lending Simplification and Reform Act of 1980 recommended that the Board permit, on a temporary basis, a more generous tolerance for error in disclosing the annual percentage rate for mortgage transactions that involve irregular payments or advances. The transactions would include those with multiple advances, such as loans for construction financing, and those with irregular repayment schedules, such as mortgages in which the monthly payments include insurance premiums that can vary over the term of the loan.

In adopting the recommendation contained in the conference report, the Board increased the tolerance from 1/8 of 1 percentage point to 1/2 of 1 percentage point above or below the actual rate. The greater tolerance would be permitted between August 1, 1980, and March 31, 1981; during that period, lenders were expected to gain experience in using the calculation tools necessary for computing the annual percentage rates for complicated mortgages. After March 31, 1981, the tolerance would revert to 1/8 of 1 percentage point.

Credit Restraint

March 14, 1980—Amendment and Adoption of a New Regulation

As part of a general government program to help curb inflationary pressures, the Board took a series of actions, effective March 14, 1980, to control inflation generated by extensions of credit in excessive amounts.[2] To impose special deposit requirements on certain creditors, the Board amended Regulation D and adopted a new regulation, Part 229 (Credit Restraint): Subpart A (Consumer Credit), Subpart B (Short-Term Financial Intermediaries), and Subpart C (Nonmember Commercial Banks).

> Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against these actions: None.[1]

The Board also approved establishment of a special credit restraint program that encouraged all creditors to comply voluntarily with the Board's overall objectives of reducing credit availability and dampening inflationary pressures.

> Votes for this action: Messrs. Volcker, Schultz, Partee, Mrs. Teeters, and Mr. Rice. Vote against this action: Mr. Wallich.[1]

The Board adopted, in conjunction with several actions taken by the administration, the following anti-inflation measures, pursuant in part to the Credit Control Act of 1969 and to Executive Order 12201:

1. Amendment of Regulation D to increase from 8 to 10 percent the marginal reserve requirement that had been imposed in October 1979 on certain managed liabilities of member banks and Edge corporations.
2. Adoption of Subpart A to require creditors who provide certain types of consumer credit to maintain a special non-interest-earning deposit with the Federal Reserve equal to 15 percent of the growth in covered assets above the base level outstanding on March 14, 1980.
3. Adoption of Subpart B to require money market mutual funds and other similar creditors to maintain a special non-interest-earning deposit equal to 15 percent of the growth in covered assets above the amount outstanding on March 14.
4. Adoption of Subpart C to require nonmember banks to maintain a special non-interest-earning deposit equal to the 10 percent marginal reserve requirement established for member banks on their managed liabilities, as described in 1 above.

The Board also established a voluntary special credit restraint program that urged financial intermediaries, other creditors, and borrowers to take into account the Federal Reserve's anti-inflationary efforts when making credit decisions. Lenders were asked to continue to meet the essential credit needs of their established customers, but to avoid lending for speculative or nonproductive purposes and to limit overall growth in credit to a range of 6 to 9 percent.

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[2] This subject is discussed in greater detail in other sections of the REPORT.

Governor Wallich dissented from the action on the voluntary program because he preferred that the Federal Reserve continue to rely on market prices rather than to rely on moral suasion for the execution of monetary policy. He feared that some creditors might try to circumvent the voluntary program, possibly by shifting business abroad; he also was concerned about the increased administrative burden that would be placed on the Federal Reserve.

March 27, 1980—Amendments

The Board approved, effective March 28, 1980, several amendments to Subpart B of the credit restraint regulation that modified the program's applicability to certain investment funds. The Board also added Subpart D (Reports under Special Credit Restraint Program) to implement the reporting provisions of the program.

> Votes for these actions: Messrs. Schultz, Partee, Mrs. Teeters, and Mr. Rice. Votes against these actions: None. Absent and not voting: Messrs. Volcker and Wallich.[1]

The amendments to the credit restraint program had the following effects:

1. Excluded bona fide personal trust, pension, retirement, and other tax-exempt accounts invested by bank fiduciaries in money market funds.
2. Allowed a unit investment trust of a particular sponsor to roll over maturing investments, under certain conditions, without incurring the 15 percent special deposit requirement.
3. Exempted the tax-exempt assets of money market funds that invest at least 80 percent of their assets in short-term tax-exempt obligations.
4. Permitted certain money market funds in existence on March 14, 1980, to use $100 million as the minimum base from which to calculate increases in outstanding credit.
5. Established reporting procedures for all affected organizations, and delayed for one week (until April 8, 1980) the filing of the base report of assets of money market funds.

April 2, 1980—Amendments

The Board amended the credit restraint regulation, Subpart A, effective immediately, to establish a uniform rule for creditors who change the terms on existing open-end credit plans.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Mr. Rice.[1]

The Board also amended Subpart A, effective immediately, to provide an alternative method of calculating a creditor's base amount of covered credit.

> Votes for this action: Messrs. Schultz, Wallich, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Messrs. Volcker and Rice.[1]

One amendment established a nationwide rule for creditors who impose or increase any finance or other charge on open-end credit accounts, change the method of computing the balance upon which charges are assessed, or increase the minimum required payment. The new rule requires creditors to provide a written notice 30 days in advance of any such change in terms. Consumers may either accept the new terms and continue to use the account, or reject the new terms, discontinue use of the credit card, and pay off any existing balance under the old terms.

The second action was taken to prevent undue hardship to some creditors, particularly retailers, who could be unfairly restricted because their outstanding level of credit may have been at the normal seasonal low in mid-March. The change allowed creditors to choose an alternate base period that would accommodate established seasonal variations.

April 16, 1980—Adoption of a Temporary Seasonal Credit Program

The Board adopted a temporary seasonal credit program to assist small banks faced with liquidity pressures.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Partee.[1]

The program extended to small nonmember banks, under simplified guidelines, the seasonal borrowing privileges previously available only to member banks. It allowed institutions with less than $100 million in deposits to obtain credit from the Federal Reserve to help them meet the credit needs of farmers, small businesses, and other priority users.

The program and guidelines were considered a temporary action to implement provisions of the Monetary Control Act of 1980; permanent provisions will be issued later.

May 22, 1980—Amendments

The Board approved amendments to the special credit restraint program that reduced by one-half the limitations on credit growth.

> Votes for this action: Messrs. Volcker, Wallich, Partee, and Rice. Votes against this action: None. Absent and not voting: Mr. Schultz and Mrs. Teeters.[1]

In view of the reduction in credit growth that had occurred and the possibility of weakening economic conditions, the Board took the following actions:

1. Reduced to 5 percent the marginal reserve requirement on managed liabilities and increased by 7½ percent the base amount upon which reserves are calculated, effective with the statement week May 29–June 5, 1980, for both member and nonmember banks.
2. Reduced to 7½ percent the special deposit requirement for covered consumer credit, effective beginning with the average amount of credit outstanding in June.
3. Reduced to 7½ percent the special deposit requirement on money market mutual funds, effective with the computation period beginning June 16, 1980.

July 2, 1980—Amendments and Termination of Regulation

The Board amended Regulation D and rescinded the credit restraint regulation, Subparts A, B, C, and D, to terminate during July the remaining requirements imposed as part of the credit restraint program. The Board further amended Regulation D to eliminate a 2 percent supplementary reserve requirement imposed in November 1978 on large time deposits of member banks.

> Votes for these actions: Messrs. Volcker, Schultz, Partee, Rice, and Gramley. Votes against these actions: None. Absent and not voting: Mr. Wallich and Mrs. Teeters.

The Board completed the phaseout of the credit restraint program by taking the following actions:

1. Eliminating the 2 percent supplemental reserve requirement and the remaining 5 percent marginal reserve requirement for managed liabilities, effective with the reserve maintenance period beginning July 24.
2. Eliminating the 7½ percent deposit requirement on consumer credit. No further deposits are necessary after the deposit maintenance period expires on July 23.
3. Eliminating the 7½ percent deposit requirement on money market mutual funds, effective with covered assets outstanding on July 28.
4. Eliminating the voluntary special credit restraint program. No further reports are required after institutions file the June 30 report.

Policy Statements and Other Actions

March 26, 1980— Formation of Small One-Bank Holding Companies

The Board adopted a statement of policy for assessing the formation of one-bank holding companies when sizable acquisition debt is involved.

> Votes for this action: Messrs. Volcker, Schultz, Partee, and Rice. Votes against this action: None. Absent and not voting: Mr. Wallich and Mrs. Teeters.[1]

The new policy, which applies to one-bank holding companies with total assets of $150 million or less and with no significant nonbanking activities, was designed to facilitate the change of ownership of small banks and to help maintain local ownership. While stressing the need to maintain the safety and soundness of the banking system, the Board said it would permit a higher level of debt than would be permissible for larger or multibank holding companies. Previously, the Board required the retirement of acquisition debt within 12 years. The revised policy establishes no time limit for debt retirement; instead, it requires that the ratio of debt to equity capital of the holding company be reduced to 30 percent within 12 years. That ratio approximates the debt level maintained by many multibank holding companies. The capital of the subsidiary bank must be maintained at a level of no less than 8 percent of assets.

May 7, 1980— Divestitures under the Bank Holding Company Act

The Board adopted a statement of policy regarding its treatment of certain divestitures required by the Bank Holding Company Act.

> Votes for this action: Messrs. Schultz, Wallich, Partee, and Mrs. Teeters. Votes against this action: None. Absent and not voting: Messrs. Volcker and Rice.[1]

The 1970 amendments to the Bank Holding Company Act allowed certain one-bank holding companies that also engaged in impermissible nonbank activities up to ten years to complete one of the following actions: (1) to qualify for an exemption that would permit retention of the activity; (2) to divest the activity; or (3) to divest the bank and cease being a bank holding company. The act required affected companies to complete such actions by December 31, 1980; it contained no provision for extending the deadline. A provision in the Monetary Control Act of 1980, however, would allow bank holding companies having impermissible real estate holdings an additional two years within which to divest.

The Board noted that a number of banking organizations still had not filed their plans for complying with the divestiture requirements. The policy statement issued by the Board required that each affected company file by July 1, 1980, an application to retain a nonbanking activity if it planned to do so. Failure to file such an application would be considered a declaration of the company's intention to divest the activity. Those organizations planning to divest must begin filing reports with the Board on August 1, 1980, regarding their progress in completing the divestiture.

With regard to the real estate provisions of the Monetary Control Act, the policy statement indicated that the Board would review on a case-by-case basis requests for extensions of time within which to comply. In reviewing those requests, the Board would take into account whether the company had made a good-faith effort in the past to divest and whether immediate divestiture would impose a substantial financial loss. Holding companies that wished to take advantage of the extension of time were required to submit a request by July 1, 1980.

November 26, 1980—Procedures for Handling Applications by Banks and Bank Holding Companies

The Board adopted a policy statement describing the procedures to be followed regarding notice of applications by banks or bank holding companies, the timeliness of comments, and guidelines for public meetings. The policy is effective with all applications for which notice is published after January 31, 1981.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

The new policy establishes improved procedures for notifying the public of applications to acquire subsidiaries or branches, to merge, or to become members of the Federal Reserve. The statement includes model formats for required newspaper notices; the notices must specify the deadline for receipt of comments on an application or for a request for an extension of the comment period. The policy also prescribes guidelines to be used for informal hearings on protested applications, particularly those protested under the Community Reinvestment Act.

In conjunction with the new policy, the Board also approved technical amendments to its Rules of Procedure.

December 12, 1980—Fee Schedules and Pricing Principles for System Services

The Board adopted pricing principles, implementation dates, and a partial schedule of fees to be charged depository institutions that use the Federal Reserve's services.

Votes for this action: Messrs. Volcker, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Schultz and Wallich.

To implement provisions of the Monetary Control Act of 1980, the Board adopted schedules of prices for certain of its services and published the principles and price determinants underlying the prices.

Fees, or a timetable for the adoption of fees, were established for the following services:

1. Payment system services, such as check clearing and collection, wire transfer of funds, and use of Federal Reserve automated clearinghouse facilities.
2. Book entry, safekeeping, and other services associated with the purchase or sale of government securities.
3. Noncash collections.
4. Transportation of currency and coin, and coin wrapping.

Charges are to be phased in over a 12-month period: Charges for wire transfer and net settlement transactions will begin January 29, 1981; charges for a number of other services will be imposed in the summer and fall of 1981; and on January 1, 1982, charges will be implemented for coin and currency services.

In its determination of appropriate prices, the Board was guided by a number of principles, including the following:

1. All System services covered by the fee schedule shall be priced explicitly.
2. All such services shall be available to nonmember depository institutions at the same fee charged member banks.
3. Revenues for major service categories shall match costs over the long run and shall reflect adjustments for the costs that would be incurred by private businesses if they provided the services. The pricing principles, however, shall give due regard to competitive factors and the provision of an adequate level of services nationwide.
4. The structure of fees and service arrangements shall be designed to improve the efficiency of services and to facilitate longer-run improvements in the payments system.
5. Interest shall be charged on items credited prior to collection at the current rate applicable on federal funds.

1980—Discount Rates

The Board approved seven changes in the basic discount rate during 1980. All were increases or decreases of 1 percentage point. These changes included an increase from 12 percent to 13 percent in mid-February, three reductions from 13 percent to 10 percent between late May and late July, and three increases from 10 percent to 13 percent between late September and early December. The Board also voted on four occasions to turn down requests for increases submitted by individual Federal Reserve Banks. No requests to lower the rate were disapproved during 1980.

In mid-March a surcharge of 3 percentage points above the basic discount rate was established on frequent borrowings by institutions with deposits of $500 million or more. This surcharge was lifted in early May, but later in the year a new surcharge was imposed; it was set at 2 percentage points in mid-November and subsequently was increased to 3 percentage points in early December.

The specific reasons for the Board's decisions are reviewed below. In reaching those decisions the Board took into account general economic and financial developments that are covered in more detail elsewhere in this REPORT. A listing of the Board's discount rate actions during 1980, including the votes on the actions and the reasons for dissents, follows this review.

January to Mid-March: Increase in Basic Discount Rate; Imposition of Surcharge

During the early weeks of the year the Board became very concerned that economic developments, including a large increase in the price of imported oil, were adding to inflationary pressures and might lead to further destabilizing pricing decisions. Moreover, by mid-February monetary expansion appeared to be accelerating, after an extended period of relatively moderate growth. In the Board's judgment these developments underscored the need to highlight the System's continuing policy to resist inflation, and on February 15 the Board approved an increase in the basic discount rate from 12 percent—the level in effect since October 8, 1979—to 13 percent.

Subsequently, on March 14 the Board approved a surcharge of 3 percentage points on frequent borrowings by institutions with deposits of $500 million or more. The surcharge was introduced as part of a broader program to curb inflation. It was designed to discourage the frequent use of the discount window by institutions with access to the money market and was intended to supplement the administrative discipline already in place at the Federal Reserve Banks. The surcharge provided added incentive for affected institutions to adjust their loans and investments more promptly to changing market conditions. Such adjustments would improve the ability of the Federal Reserve to attain its longer-run objectives for bank credit and the money supply.

Late March through April: No Change

In late March and in mid-April requests by two Federal Reserve Banks to raise the basic discount rate by 2 percentage points and 3 percentage points were denied by the Board. The other ten Banks had proposed that the current rate be maintained. Over previous weeks short-term market rates had risen to levels well above the discount rate. However, because of the sensitivity of financial markets to monetary policy developments, the Board concluded that a large increase in the discount rate was likely to convey a misleading message of further tightening in monetary policy and put further upward pressure on bank lending rates and market interest rates.

Early May to Late July: Removal of Surcharge; Reductions in Basic Discount Rate

On May 6 the Board approved requests by several Federal Reserve Banks to eliminate the surcharge of 3 percentage points on frequent borrowings by large depository institutions. At the time it was established the surcharge brought the cost of Federal Reserve credit for affected borrowers into approximate alignment with the constellation of short-term market rates. Those rates had declined substantially during April and by early May were well below the surcharge rate. In the circumstances the Board concluded that the need for a surcharge no longer existed.

From late May to late July, the Board approved three reductions of 1 percentage point in the basic discount rate—from 13 percent to 10 percent. All of these actions were technical in nature: they were designed to bring the discount rate into closer alignment with short-term market rates, which fell substantially over the period, and were not intended to signal a change in the general course of monetary policy.

Early August through Mid-September: No Change in Basic Discount Rate

Between early August and mid-September, one Federal Reserve Bank requested a change in the basic discount rate—an increase of ½ percentage point. The request was disapproved on September 15. The Board's decision reflected its view that the discount rate was then at an appropriate level in relation to short-term market rates.

On August 22 the Board approved a reduction of ½ percentage point in the rate on loans made under section 10(b) of the Federal Reserve Act. Such loans were secured by "ineligible paper," and the purpose of this action was to conform the System's lending rules with the Monetary Control Act of 1980. The latter had removed the previous requirement that loans collateralized by ineligible paper be made at a rate at least ½ percentage point above the basic discount rate. This action eliminated the penalty rate in question by providing that adjustment and seasonal credit collateralized to the satisfaction of the Reserve Bank be made at the basic discount rate, which remained at 10 percent.

Late September through December: Increases in Basic Discount Rate; Reimposition of Surcharge

On September 25 the Board approved an increase of 1 percentage point in the basic discount rate to a level of 11 percent. This action was taken against the background of an unexpectedly sharp recovery in economic activity and the persistence of intense inflationary pressures. These developments were associated in turn with rapid expansion in money and bank credit and with sizable increases in market interest rates. By late September short-term interest rates had risen to levels well above the basic discount rate, and bank borrowings had also advanced appreciably on average. In announcing this action the Board referred to the continuing policy of the Federal Reserve to discourage excessive growth in the monetary aggregates.

The Board approved a further increase of 1 percentage point in the basic discount rate on November 14 and also approved a surcharge of 2 percentage points on frequent borrowings by depository institutions with $500 million or more in deposits. Interest rates and bank borrowings had risen considerably further since late September. The monetary aggregates and bank credit had continued to expand at rapid rates, with particular strength exhibited by business loans. In this situation the Board decided that increases in System lending rates were desirable to bring them into better alignment with market rates and to highlight the Federal Reserve's continuing anti-inflationary policy.

On December 4 the Board approved an additional increase of 1 percentage point in the basic discount rate to a level of 13 percent and also approved a higher surcharge, of 3 percentage points, on frequent borrowings by large depository institutions. In the Board's judgment, there was a strong case on technical grounds for raising the System's lending rates, given the unusually wide spread that had developed in recent weeks between those rates and market interest rates. Moreover, borrowings by depository institutions had remained relatively high. The Board also believed that the increases in question would be consistent with the policy of restraining excessive growth in money and credit and would have a favorable impact on inflationary expectations.

Subsequent requests by three Federal Reserve Banks to raise the basic discount rate by 1 or 2 percentage points were turned down by the Board on December 22. In reaching this decision, the Board took account of sizable increases in short-term interest rates since early December, but it also noted that expansion in the monetary aggregates appeared to have moderated substantially in recent weeks. Moreover, while inflation and inflationary expectations remained very strong, there were signs that economic activity might weaken in the months ahead.

Votes on Reserve Bank Actions to Change the Discount Rate

Under the provisions of the Federal Reserve Act, the boards of directors of the Federal Reserve Banks are required to establish rates on discounts for and advances to member banks at least every 14 days and to submit such rates to the Board for review and determination. The Board votes listed below are those that involved approval or disapproval of actions to change the rate. Reference is made to the rate on discounts for and advances to depository institutions for short-term adjustment credit. This rate has been referred to as the basic discount rate in the foregoing report.

A corresponding change in subsidiary rates was approved each time the basic rate was changed. As of December 31, 1980, the structure of rates was as follows: a basic rate of 13 percent for short-term adjustment credit, subject to a surcharge of 3 percentage points for such borrowing by institutions with deposits of $500 million or more that borrowed in successive statement weeks or in more than four weeks in a calendar quarter; 13 percent for extended seasonal credit; 14 percent for extended credit in situations in which exceptional circumstances or practices are adversely affecting an individual institution; and 16 percent for emergency credit to borrowers other than depository institutions.

February 15, 1980

Effective February 15, 1980, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco to increase the discount rate from 12 percent to 13 percent.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Coldwell.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston, Philadelphia, and Kansas City, effective February 19, 1980.

Mr. Wallich, while voting in favor of this action, indicated that he would have preferred a larger increase in light of the strength of inflationary forces and inflationary sentiment in the economy.

March 14, 1980

Effective March 17, 1980, the Board approved actions taken by the directors of all of the Federal Reserve Banks to establish a surcharge of 3 percentage points for borrowing for ordinary adjustment credit by institutions with deposits of $500 million or more, when such borrowing occurred in two successive statement weeks or when it occurred in more than four weeks in a calendar quarter.

> Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None.[1]

March 31, 1980

The Board disapproved actions taken on March 27 by the directors of the Federal Reserve Bank of Cleveland to increase the discount rate to 16 percent and by the directors of the Federal Reserve Bank of St. Louis to increase the discount rate to 15 percent.

> Votes for this action: Messrs. Schultz, Wallich, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Volcker.[1]

April 14, 1980

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Cleveland on April 10 to increase the discount rate to 15 percent.

> Votes for this action: Messrs. Volcker, Schultz, Partee, Mrs. Teeters, and Mr. Rice. Votes against this action: None. Absent and not voting: Mr. Wallich.[1]

May 6, 1980

Effective May 7, 1980, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, Philadephia, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco to eliminate the 3 percentage point surcharge, approved on March 14, 1980, applicable to frequent borrowings by depository institutions with deposits of $500 million or more.

> Votes for this action: Messrs. Volcker, Schultz, Mrs. Teeters, and Mr. Rice. Vote against this action: Mr. Wallich. Absent and not voting: Mr. Partee.[1]

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of New York, Cleveland, and Kansas City, effective May 9, 1980.

Mr. Wallich voted against this action because he believed the sizable decline in market interest rates during recent weeks had generated an undesirable inference of easing in monetary policy. Removal of the discount rate surcharge would reinforce that view in his judgment and have an adverse effect on inflationary expectations.

May 28, 1980

Effective May 29, 1980, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, Philadelphia, Cleveland,

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[1] This note appears on p. 65.

Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the discount rate from 13 percent to 12 percent.

Votes for this action: Messrs. Volcker, Schultz, Mrs. Teeters, and Mr. Rice. Vote against this action: Mr. Wallich. Absent and not voting: Mr. Partee.[1]

The Board subsequently approved a similar action taken by the directors of the Federal Reserve Bank of New York, effective May 30, 1980.

Mr. Wallich was opposed to a reduction at this time because he was concerned that such action would be interpreted as a move toward a more stimulative monetary policy and would therefore have an adverse impact on inflationary expectations.

June 12, 1980

Effective June 13, 1980, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the discount rate to 11 percent.

Votes for this action: Messrs. Volcker, Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston and Atlanta, effective June 16, 1980.

July 25, 1980

Effective July 28, 1980, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to reduce the discount rate to 10 percent.

Votes for this action: Messrs. Volcker, Wallich, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Messrs. Schultz and Partee.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston and Philadelphia, effective July 29, 1980.

August 22, 1980

Effective September 2, 1980, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, and Atlanta to reduce the discount rate under section 10(b) of the Federal Reserve Act from 10½ percent to 10 percent.

Votes for this action: Messrs. Volcker, Schultz, Partee, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich, Mrs. Teeters, and Mr. Rice.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, effective September 2, 1980.

September 15, 1980

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on September 11, 1980, to increase the discount rate from 10 percent to 10½ percent.

Votes for this action: Messrs. Volcker, Schultz, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Wallich.

September 25, 1980

Effective September 26, 1980, the Board approved actions taken by the directors of all of the Federal Reserve Banks to increase the discount rate to 11 percent.

Votes for this action: Messrs. Volcker, Schultz, Wallich, Partee, Mrs. Teeters, Messrs. Rice, and Gramley. Votes against this action: None.

November 14, 1980

Effective November 17, 1980, the Board approved actions taken by the directors of all of the Federal Reserve Banks to increase the discount rate to 12 percent and to adopt a surcharge of 2 percentage points on frequent use of the discount window by large borrowers.

Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Rice, and Gramley. Vote against these actions: Mrs. Teeters.

Mrs. Teeters voted against the increases because she felt they would put further upward pressure on market interest rates, which she believed were already too high, and could have seriously adverse consequences for the economy.

December 4, 1980

Effective December 5, 1980, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City, and San Francisco to increase the discount rate to 13 percent and to raise the surcharge to 3 percentage points for large depository institutions that have a record of frequent borrowing.

Votes for these actions: Messrs. Volcker, Schultz, Wallich, Partee, Rice, and Gramley. Vote against these actions: Mrs. Teeters.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of Boston, Philadelphia, Chicago, and Dallas, effective December 8, 1980.

Mrs. Teeters believed that no change should be made in discount rates. In her view interest rates were already too high and were having a highly restraining impact on economic activity. She saw a major risk that further sizable increases in interest rates, which were likely to be stimulated by a rise in discount rates, might be followed by a relatively sharp downturn in overall economic activity.

December 22, 1980

The Board disapproved actions taken on December 11 by the directors of the Federal Reserve Banks of Richmond and St. Louis to increase the discount rate to 14 percent and by the directors of the Federal Reserve Bank of Cleveland to increase the discount rate to 15 percent.

Votes for this action: Messrs. Volcker, Wallich, Partee, Rice, and Gramley. Votes against this action: None. Absent and not voting: Mr. Schultz and Mrs. Teeters.

Record of Policy Actions of the Federal Open Market Committee

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1980, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions. The summary descriptions of economic and financial conditions are based on the information that was available to the Committee at the time of the meetings, rather than on data as they may have been revised later.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

During 1980 the policy record for each meeting was released a few days after the next regularly scheduled meeting and was subsequently published in the *Federal Reserve Bulletin.*

Policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. In the area of domestic open market activities, the Federal Reserve Bank of New York operates under two separate directives from the Open Market Committee, an Authorization for Domestic Open Market Operations and a domestic policy directive. In the foreign currency area, it operates under an Authorization for Foreign Currency Operations and a foreign currency directive. These four instruments are shown below in the form in which they were in effect at the beginning of 1980. Changes in the instruments during the year are reported in the records for the individual meetings.

Authorization for Domestic Open Market Operations

In Effect January 1, 1980

1. The Federal Open Market Committee authorizes and directs the Federal

Reserve Bank of New York, to the extent necessary to carry out the most recent domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency securities held in such Account (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to a domestic policy directive shall not be increased or decreased by more than $4.0 billion [1] during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) When appropriate, to buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers aceptances held at any one time shall not exceed $100 million;

(c) To buy U.S. Government securities, obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, and prime bankers acceptances of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank) (a) to lend to the Treasury such amounts of securities held in the System Open Market Account as may be necessary from time to time for the temporary accommodation of the Treasury, under such conditions as the Committee may specify; and (b) to purchase directly from the Treasury for renewable periods not to exceed 30 days, when authorized by the Board of Governors of the Federal Reserve System pursuant to an affirmative vote of not less than five members, for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accom-

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[1] Pursuant to an action taken by the Committee on December 19, 1979, the limit on changes between the Committee meetings in System Account holdings of U.S. government and federal agency securities was set at $4.0 billion for the period through the close of business on January 9, 1980, at which time it reverted to $3.0 billion.

modation of the Treasury, provided that the rate charged on such certificates shall be a rate of ¼ of 1 percent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases and provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $2 billion.

3. In order to ensure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments for foreign and international accounts maintained at the Federal Reserve Bank of New York, the Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York (a) for System Open Market Account, to sell U.S. Government securities to such foreign and international accounts on the bases set forth in paragraph 1 (a) under agreements providing for the resale by such accounts of those securities within 15 calendar days on terms comparable to those available on such transactions in the market; and (b) for New York Bank account, when appropriate, to undertake with dealers, subject to the conditions imposed on purchases and sales of securities in paragraph 1 (c), repurchase agreements in U.S. Government and agency securities, and to arrange corresponding sale and repurchase agreements between its own account and foreign and international accounts maintained at the Bank. Transactions undertaken with such accounts under the provisions of this paragraph may provide for a service fee when appropriate.

Domestic Policy Directive

In Effect January 1, 1980

The information reviewed at this meeting suggests that real output of goods and services is declining in the current quarter, after the third-quarter rebound, and that prices on the average are continuing to rise rapidly. Retail sales, which had expanded sharply during the third quarter in both constant and current dollars, dropped in October. Industrial production remained near its midyear level. Nonfarm payroll employment rose considerably, after three months of little growth, but the unemployment rate increased from 5.8 to 6.0 percent. Producer prices of finished goods continued to rise rapidly in October, in part because of further sharp increases in energy costs. The rise in the index of average hourly earnings during the first 10 months of the year was close to the rapid pace during 1978.

On October 6 the Federal Reserve announced a series of complementary actions directed toward assuring control over the expansion of money and bank credit and toward curbing speculative excesses in commodity and financial markets, including foreign exchange markets. The actions included an increase in Federal Reserve Bank discount rates from 11 percent to 12 percent; establishment of a marginal reserve requirement on increases in the total of managed liabilities of member banks, Edge corporations, and U.S. agencies and branches of foreign banks; and a shift in the conduct of open market operations to an approach placing greater emphasis in day-to-day operations on the supply of bank reserves and less emphasis on confining short-term fluctuations in the federal funds rate.

Following the announcement on October 6, the downward pressure on the dollar in the exchange markets that had developed in September was reversed, and by the end of October the trade-weighted value of the dollar against major foreign currencies had risen about 3½ percent. In mid-November, however, the value of the dollar declined, reflecting in part developments concerning Iran. The U.S. foreign trade deficit increased in September as the cost of oil imports rose, but the deficit was somewhat lower for the third quarter as a whole than for the second quarter.

Growth of M-1, which had accelerated in September and was exceptionally rapid in the third quarter as a whole, slowed sharply in October to an annual rate of 2½ percent. Expansion of interest-bearing deposits included in M-2 remained strong, as a rise in net flows into time deposits at commercial banks in response to increased yields offset a contraction in savings deposits. Inflows of deposits at nonbank thrift institutions slowed somewhat. Flows into money market mutual funds accelerated. Growth of commercial bank credit moderated in October; nevertheless, banks increased their reliance on the negotiable, large-denomination CD's and other managed liabilities that became subject to the marginal reserve requirement in the statement week beginning October 11. Both short- and long-term market interest rates have risen sharply on balance since the early October announcement of the System's policy actions, although most recently rates have declined; mortgage interest rates have increased substantially further.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively, the same ranges that had been established in February. The range for M-1 had been established originally on the basis of an assumption that expansion of ATS and NOW accounts would dampen growth by about 3 percentage points over the year. It now appears that expansion of such accounts will dampen growth by about 1½ percentage points over the year; thus after allowance for the deviation from the earlier estimate, the equivalent range for M-1 is now 3 to 6 percent. The associated range for bank credit is 7½ to 10½ percent. The Committee anticipates that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. These ranges will be reconsidered at any time as conditions warrant.

In the short run, the Committee seeks to restrain expansion of reserve aggregates to a pace consistent with deceleration in growth of M-1, M-2, and M-3 in the fourth quarter of 1979 to rates that would hold growth of these monetary aggregates over the whole period from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's longer-run ranges, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11½ to 15½ percent.

It it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Authorization for Foreign Currency Operations

In Effect January 1, 1980

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto, and in conformity with such procedural instructions as the Committee may issue from time to time:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Treasury, with the U.S. Exchange Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, with the Bank for International Settlements, and with other international financial institutions:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, the foreign currencies listed in paragraph A above.

C. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

D. To maintain an overall open position in all foreign currencies not exceeding $1.0 billion, unless a larger position is expressly authorized by the Committee. [Note. An overall open position not exceeding $8.0 billion had been expressly authorized by the Committee on December 19, 1978, and was in effect as of January 1, 1980.] For this purpose, the overall open position in all foreign currencies is defined as the sum (disregarding signs) of net positions in individual currencies. The net position in a single foreign currency is defined as holdings of balances in that currency, plus outstanding contracts for future receipt, minus outstanding contracts for future delivery of that currency, i.e., as the sum of these elements with due regard to sign.

2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates.

4. It shall be the normal practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks of System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. When appropriate in connection with arrangements to provide investment facilities for foreign currency holdings, U.S.

government securities may be purchased from foreign central banks under agreements for repurchase of such securities within 30 calendar days.

6. All operations undertaken pursuant to the preceding paragraphs shall be reported daily to the Foreign Currency Subcommittee. The Foreign Currency Subcommittee consists of the Chairman and Vice Chairman of the Committee, the Vice Chairman of the Board of Governors, and such other members of the Board as the Chairman may designate (or in the absence of members of the Board serving on the Subcommittee, other Board Members designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee, his alternate). Meetings of the Subcommittee shall be called at the request of any member, or at the request of the Manager, for the purposes of reviewing recent or contemplated operations and of consulting with the Manager on other matters relating to his responsibilities. At the request of any member of the Subcommittee, questions arising from such reviews and consultations shall be referred for determination to the Federal Open Market Committee.

7. The Chairman is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Treasury;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

Foreign Currency Directive

In Effect January 1, 1980

1. System operations in foreign currencies shall generally be directed at countering disorderly market conditions, provided that market exchange rates for the U.S. dollar reflect actions and behavior consistent with the IMF Article IV, Section 1.

2. To achieve this end the System shall:

A. Undertake spot and forward purchases and sales of foreign exchange.

B. Maintain reciprocal currency ("swap") arrangements with selected foreign central banks and with the Bank for International Settlements.

C. Cooperate in other respects with central banks of other countries and with international monetary institutions.

3. Transactions may also be undertaken:

A. To adjust System balances in light of probable future needs for currencies.

B. To provide means for meeting System and Treasury commitments in particular currencies, and to facilitate operations of the Exchange Stabilization Fund.

C. For such other purposes as may be expressly authorized by the Committee.

4. System foreign currency operations shall be conducted:

A. In close and continuous consultation and cooperation with the United States Treasury;

B. In cooperation, as appropriate, with foreign monetary authorities; and

C. In a manner consistent with the obligations of the United States in the International Monetary Fund regarding exchange arrangements under the IMF Article IV.

Meeting Held on
January 8–9, 1980

Domestic Policy Directive

The information reviewed at this meeting suggested that, contrary to the estimates presented at the time of the November 20 meeting, real output of goods and services expanded somewhat further in the fourth quarter of 1979 after its rebound in the third quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have risen at a pace close to the annual rate of about 10 percent experienced during the first three quarters of the year.

Total retail sales strengthened in November and recovered the sizable decline in October, although sales of new automobiles remained at a reduced level. In December, auto sales improved considerably.

The index of industrial production fell 0.5 percent in November, and on balance the level of production was little changed from that in December 1978. Nonfarm payroll employment rose considerably in October and November, following three months of slower expansion, and the rate of unemployment edged down in November from 6.0 to 5.8 percent.

Private housing starts declined somewhat in October and fell sharply further in November to an annual rate of 1.5 million units. Building permits for new units declined substantially in both October and November, and combined sales of new and existing single-family homes appeared to be lower in both months.

The latest survey of business plans taken by the Department of Commerce in late October and November suggested that spending for plant and equipment would be 14.7 percent greater in 1979 than in 1978. The survey also indicated that investment outlays would increase at an annual rate of 12.8 percent over the first half of 1980.

Producer prices of finished goods and consumer prices continued to rise rapidly in November, reflecting in part the continuing diffusion of earlier increases in energy costs. Advances in prices of food contributed importantly to the November rise in producer prices, while further sharp increases in the costs of homeownership were a major factor in sustaining the upward pressure on consumer prices.

The index of average hourly earnings of private nonfarm production workers rose at an annual rate of 9½ percent in November and at a rate of about 8 percent over the first 11 months of 1979, close to the rate of increase in 1978. Labor cost pressures in the nonfarm business sector intensified during 1979, as large increases in total hourly compensation were associated with a decline in productivity.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had depreciated about 3 percent since mid-November, reflecting in large part developments relating to Iran and Afghanistan and a firming of monetary conditions in a number of foreign countries. The U.S. trade deficit in October and November averaged slightly below the rate for the third quarter. In November a decline in the value of oil imports contributed to the improvement, as a sharp drop in the physical volume of oil more than offset a further rise in its price.

At its meeting on November 20,

1979, the Committee had reaffirmed the broad objectives for monetary growth adopted at its meeting on October 6 and had decided that over the remainder of 1979 the Manager for Domestic Operations should continue to restrain expansion of bank reserves in pursuit of the Committee's objective of decelerating growth of M-1, M-2, and M-3 over the fourth quarter to rates that would hold expansion of these monetary aggregates from the fourth quarter of 1978 to the fourth quarter of 1979 within the Committee's ranges for that period; it was understood at the meeting that persistence of recent relationships might result in growth of M-2 at about the upper limit of its range. Specifically, the Committee instructed the Manager to restrain the expansion of bank reserves to a pace thought to be consistent with growth at average annual rates of about 5 percent for M-1 and 8½ percent for M-2 in November and December, provided that in the period before the next regular meeting the weekly average federal funds rate remained generally within a range of 11½ to 15½ percent.

Over the first four weeks after the November meeting, both total and nonborrowed reserves grew at about the rates projected at the time of the meeting. Member bank borrowings averaged about $1¾ billion, compared with an average of slightly less than $2 billion in the preceding three weeks, and the federal funds rate continued to average around 13½ percent. Toward the end of the four-week period, however, the demand for reserves appeared to be easing relative to the path consistent with desired monetary growth. In the three weeks remaining before this meeting, member bank borrowings declined to a daily average of about $1.1 billion. Despite the decline in borrowings, the federal funds rate edged up to an average of about 14 percent in late December and early January, at least in part because of exceptionally large demands for excess reserves around the year-end holidays.

Expansion in the major monetary aggregates remained at a reduced pace in November and December, after having slowed markedly in October. Over the two-month period, M-1, M-2, and M-3 grew at annual rates of about 3¼ percent, 6 percent, and 5¾ percent respectively.[1] Over the three months from September to December, M-1 grew at a rate of about 3 percent and M-2 and M-3 at rates of about 7 percent and 6¼ percent respectively.

The reduced growth in the monetary aggregates over the fourth quarter was associated with a slowing of expansion in interest-bearing deposits as the quarter progressed. At commercial banks, net flows into money market certificates and large-denomination time deposits accounted for all of the growth in interest-bearing deposits during the quarter. Among nonbank thrift institutions, mutual savings banks and credit unions experienced particularly weak net inflows.

Growth in total loans and investments at commercial banks slowed sharply in the fourth quarter. Slower expansion was especially pronounced in business loans. Growth in real estate loans remained close to the pace in the first three quarters of the year.

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[1] M-1 comprises private demand deposits and currency in circulation. M-2 comprises M-1 and commercial bank time and savings deposits other than large-denomination certificates of deposit. M-3 is M-2 plus deposits at nonbank thrift institutions (savings and loan associations, mutual savings banks, and credit unions).

Since the November meeting of the Committee, interest rates had fluctuated over a relatively wide range, although they had been somewhat less volatile than in the previous intermeeting period. On balance, most interest rates had declined. Most banks had reduced their loan rate to prime business borrowers from 15¾ to 15¼ percent, and a few banks had cut the rate to 15 percent. Mortgage rates had edged higher in the primary market, and available information suggested continued weakness in mortgage commitments and lending activity at nonbank thrift institutions.

Staff projections suggested that growth of nominal gross national product would slow considerably in the current quarter and then pick up gradually over the remainder of 1980. The projections suggested, however, that a contraction in real GNP would develop in the current quarter and would continue later in the year, although at a diminishing pace in the second half, and that the rate of unemployment would increase substantially. The rise in average prices was projected to accelerate slightly during the early part of 1980, mainly because of increases in energy costs, but to subside later.

In the Committee's consideration of the economic outlook, several members stressed the elements of uncertainty in the current situation. The observation was made that the relationships of the past appeared to provide less guidance than usual in appraising the current situation and outlook. In the latter part of 1979, for example, overall activity had been unexpectedly strong and the widely anticipated recession had not developed, although automobile production and housing starts had declined. In the judgment of a number of members, a downturn now seemed to be getting under way, but there was also recognition that it could be delayed for another quarter or two.

Consumption expenditures in particular were stronger in late 1979 than had been anticipated, and the saving rate fell to an exceptionally low level. To the extent that the reduced saving rate was attributable to buying in anticipation of rapid increases in prices, strength in consumer buying could persist for a time. On the other hand, to the extent that the reduced rate reflected pressure on consumer budgets arising from past inflation and from the onset of the heating season with sharply higher prices for energy, the strength in consumer buying could give way rather promptly to substantial weakness.

The outlook for domestic economic activity continued to be clouded by political developments abroad. The problem of the U.S. hostages held in Iran was unresolved, and in recent days international tensions had been heightened by the Soviet Union's invasion of Afghanistan. Increased defense spending could have an impact on economic activity, although current information suggested that increases would be of limited proportions.

Inflation remained a major concern. In part because of earlier increases in oil prices and in mortgage interest rates, the consumer price indexes to be published in the next few months probably would continue to show exceptionally large advances.

At its meeting on July 11, 1979,

the Committee had reaffirmed the following ranges for monetary growth from the fourth quarter of 1978 to the fourth quarter of 1979 that it had established in February: M-1, 1½ to 4½ percent; M-2, 5 to 8 percent; and M-3, 6 to 9 percent. Having established the range for M-1 in February on the assumption that expansion of automatic transfer service (ATS) and negotiable order of withdrawal (NOW) accounts would dampen growth by about 3 percentage points over the year, the Committee also agreed that actual growth of M-1 might vary in relation to its range to the extent of any deviation from that estimate. Later in the year, expansion of such accounts appeared to be reducing measured growth of M-1 over the year by about 1½ percentage points, and after allowance for the deviation from the earlier assumption, the equivalent range was 3 to 6 percent. Over the year ending in the fourth quarter of 1979, M-1 grew about 5½ percent, M-2 about 8¼ percent, and M-3 about 8 percent.[2]

At the July meeting the Committee also anticipated that growth of the monetary and credit aggregates over the year ending in the fourth quarter of 1980 might be within the ranges established for 1979. At this meeting the Committee began a review of the ranges for 1980. It was understood that at its meeting scheduled for early February the Committee would complete its review and would establish ranges for 1980 within the framework of the Full Employment and Balanced Growth (Humphrey-Hawkins) Act of 1978.

In the discussion of policy for the near term, the members in general considered rates of monetary growth for the three months from December to March within the framework of some reduction in ranges for growth over the whole of 1980 from those for 1979 in pursuit of the Committee's objective of reducing the rate of inflation. The Committee also took note of a staff analysis indicating that the demand for money could be relatively weak in the first quarter of 1980, if growth of nominal GNP did in fact slow sharply, and could strengthen as the year progressed.

A number of members favored pursuit of somewhat slower monetary growth in the early months of the year than they might accept for the whole year, and some indicated a willingness to tolerate relatively slow monetary growth if significant declines in interest rates developed in the weeks immediately ahead. These views were consistent with the possibility that the demand for money would be relatively weak early in the year and that pressures for monetary growth were likely to increase later in the year if growth of nominal GNP picked up. Moreover, concern was expressed that any substantial declines in interest rates might be interpreted as a significant easing of monetary policy and thus could have adverse consequences for inflationary expectations and for the foreign exchange value of the dollar. Other members of the Committee, however, expressed skepticism about the feasibility of fine tuning policy in an effort to provide for rather small, intrayear variations in the rate of monetary growth.

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[2] These growth rates are based on revised data for the monetary aggregates, reflecting new benchmarks for deposits at nonmember banks that were published on January 10, 1980. On the basis of unrevised figures, the growth rates were slightly lower for M-1 and M-2—about 5 percent and 8 percent respectively.

Differences in views concerning the particular rates of monetary growth to be specified for the period from December to March were not great. Preferences were expressed for growth indexed by expansion in M-1 at an annual rate of 4 percent, a rate of 5 percent, and something between the two.

With respect to the acceptable range of fluctuation for the federal funds rate, almost all members preferred to retain the range of 11½ to 15½ percent originally adopted at the meeting on October 6, 1979, and continued at the meeting on November 20. One member suggested raising the range slightly, to 12 to 16 percent.

At the conclusion of the discussion, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth over the first quarter of 1980 at an annual rate between 4 and 5 percent for M-1 and on the order of 7 percent for M-2, provided that the weekly average federal funds rate remained within a range of 11½ to 15½ percent. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real output of goods and services expanded somewhat further in the final quarter of 1979 and that prices on the average continued to rise rapidly. In November retail sales strengthened and nonfarm payroll employment rose considerably further, but industrial production declined somewhat and private housing starts fell. The unemployment rate edged down from 6.0 to 5.8 percent. Producer prices of finished goods and consumer prices continued to rise rapidly, in part because of the spreading effects of earlier increases in energy costs. Over recent months the rise in the index of average hourly earnings has remained close to the rapid pace during 1978.

The trade-weighted value of the dollar against major foreign currencies has depreciated about 3 percent since mid-November, reflecting in large part the Middle East situation as well as a firming of monetary conditions in a number of foreign countries. The U.S. foreign trade deficit in October and November on the average was slightly below the rate for the third quarter.

Growth of the major monetary aggregates, which had slowed in October, remained at reduced rates in the final months of 1979. From the fourth quarter of 1978 to the fourth quarter of 1979 M-1 grew 5½ percent, M-2 about 8¼ percent, and M-3 about 8 percent. Most market interest rates have declined somewhat on balance since the Committee's meeting in late November.

Taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on July 11, 1979, the Committee agreed that these objectives would be furthered by growth of M-1, M-2, and M-3 from the fourth quarter of 1978 to the fourth quarter of 1979 within ranges of 1½ to 4½ percent, 5 to 8 percent, and 6 to 9 percent respectively. It appeared that expansion of ATS and

NOW accounts would dampen growth of M-1 by about 1½ percentage points over the year, half as much as assumed early in the year; thus after allowance for the deviation from the earlier estimate, the equivalent range for M-1 was 3 to 6 percent. The associated range for bank credit was 7½ to 10½ percent. The Committee anticipated that for the period from the fourth quarter of 1979 to the fourth quarter of 1980, growth may be within the same ranges, depending upon emerging economic conditions and appropriate adjustments that may be required by legislation or judicial developments affecting interest-bearing transactions accounts. Ranges for 1980 will be reconsidered at the meeting of the Committee scheduled for early February.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth over the first quarter of 1980 at an annual rate between 4 and 5 percent for M-1 and on the order of 7 percent for M-2, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11½ to 15½ percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as an alternate member.)

Meeting Held on February 4–5, 1980

Domestic Policy Directive

Growth in real output of goods and services moderated to an annual rate of about 1½ percent in the fourth quarter of 1979, according to preliminary estimates of the Commerce Department. Real gross national product had grown at a rate of about 3 percent in the third quarter, buttressed by strength in consumer spending. Average prices, as measured by the fixed-weight price index for gross domestic business product, increased at an annual rate of about 9¼ percent in the fourth quarter, after having risen at an average annual rate of about 10 percent in the first three quarters. Over the year ending with the fourth quarter of 1979, real GNP and nominal GNP grew about ¾ percent and 10 percent respectively.

Total retail sales strengthened in November and December, after a sharp decline in October. From the third to the fourth quarter, however, sales changed little in constant-dollar terms as consumer buying of new automobiles and some other durable goods weakened.

The index of industrial production rose somewhat in December, offsetting the decline in November. In the fourth quarter, industrial production was up about 1 percent from a year earlier.

Nonfarm payroll employment, which had expanded moderately during the fourth quarter, rose substantially further in January. However, the rate of unemployment rose from 5.9 to 6.2 percent in January, its highest level in well over a year.

The Department of Commerce survey of business spending plans taken in late November and December suggested that expenditures for plant and equipment would rise about 11 percent from 1979 to 1980, after having expanded about 14¾ percent in 1979. After allowance for expected increases in prices, however, the rise projected for 1980 was negligible.

In December private housing starts were at an annual rate of 1.5 million units, unchanged from November but down from an average rate of 1.8 million units in both the second and the third quarters of the year. Combined sales of new and existing single-family homes fell in November for the second consecutive month, and preliminary indications suggested a further decline in December.

Producer prices of finished goods and consumer prices continued to rise rapidly in late 1979, in part because of the continuing spread of the effects of earlier increases in energy costs. In December producer prices and consumer prices were about 12½ percent and 13¼ percent respectively above a year earlier. Both measures had risen around 9 percent during 1978.

The rise in the index of average hourly earnings of private nonfarm production workers moderated in January, following sharp increases in November and December. For the year 1979 the index was up 8.3 percent, about the same as in 1978.

In foreign exchange markets, pressures on the dollar were relatively slight in January. The trade-weighted value of the dollar against major foreign currencies changed little on balance despite increased international political tensions. The U.S. trade deficit rose considerably in December from a relatively low November level, in large part because of an increase in oil imports. For the fourth quarter as a whole, the trade deficit was close to the second- and third-quarter levels.

At its meeting on January 8-9, 1980, the Committee had agreed that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1 during the first quarter of 1980 at an annual rate between 4 and 5 percent and expansion of M-2 on the order of 7 percent, provided that in the intermeeting period the weekly average federal funds rate remained generally within a range of 11½ to 15½ percent. The Committee had also agreed that if the constraint on the federal funds rate appeared to be inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman who would then decide whether the situation called for supplementary instructions from the Committee.

Expansion in the major monetary aggregates, which had subsided in the final months of 1979, remained at reduced rates in January. M-1 and M-2 were estimated to have expanded in January at annual rates of about 1½ percent and 5¼ percent respectively, compared with rates of about 3 percent and 6¾ percent over the preceding three months. M-3 was estimated to have grown at an annual rate of about 4½ percent in January, after having expanded at a rate of about 6 percent during the fourth quarter.

With the demand for money moderate, the federal funds rate declined from an average of about 14 percent in late December and early January to about 13½ percent in the statement week ending January 30 and to a somewhat lower average in the remaining days preceding this meeting. Growth in total reserves decelerated sharply in January to an annual rate of 4 percent. Nonborrowed reserves expanded at an annual rate of about 11 percent, as average member bank borrowings declined somewhat further in January from the reduced level in December.

Newly available data confirmed a weakening of bank credit extensions to nonfinancial businesses in the fourth quarter. However, incomplete data for January suggested a rise in bank lending to such borrowers. In addition, the issuance of commercial paper by nonfinancial corporations rebounded in December and January.

Most market interest rates, especially longer-term rates, rose over the intermeeting period despite the decline in the federal funds rate. Advances in Treasury bill rates appeared to reflect large Treasury issues to raise new cash. Longer-term debt markets were influenced by an intensification of inflationary expectations, which seemed to reflect data indicating stronger business activity than anticipated and the prospect of enlarged defense spending in response to international tensions. The home mortgage market remained exceptionally tight in January, but there were a few reports of liberalization in lending policies in the primary market.

Staff projections prepared for this meeting suggested that growth of nominal GNP would slow much less in the current quarter than had appeared likely a month earlier, and growth over the remaining quarters of 1980 was expected to vary relatively little from the first-quarter pace. The projections continued to suggest that real GNP would contract moderately during the year and that the rate of unemployment would increase substantially. Price prospects for the current year were similar to those of a month earlier: the rise in average prices was projected to accelerate somewhat during the early part of the year from the annual rate of about $9^1/_4$ percent in the fourth quarter of 1979, mainly because of increases in energy costs, but to subside later. In view of international conditions and an apparent strengthening of inflationary psychology, however, the projections were subject to greater uncertainties than usual, especially with regard to consumer and defense spending.

In the Committee's discussion of the economic situation and outlook, the members in general stressed the unusual uncertainties affecting forecasts of both output and prices. Most members thought that a moderate contraction in real GNP was likely in 1980, bringing a substantial increase in unemployment, and they expected the rise in prices to remain very rapid. The view was also expressed, however, that real GNP would decline little if at all during the year, that the unemployment rate would increase less than generally anticipated, and that the rise in prices could well accelerate further.

One major uncertainty for the immediate future was the probable behavior of consumer spending for goods and services. Such spending had been unexpectedly strong in the latter part of 1979 despite weak growth in disposable personal income, and the saving rate had fallen to an exceptional low of about $3^1/_4$ percent in the fourth quarter. Interpretations of the phenomenon and its implications for the future differed: it might result primarily from inflation's squeeze on household budgets and thus foreshadow a sudden retrenchment in consumer spending; or it might represent primarily a consumer adaptation to high current and prospective rates of inflation and so could persist. Near-term prospects for consumer spending were clouded, in addition, by more than the usual uncertainty about the effects of federal income tax refunds, which were expected to be unusually large in March and April this year.

A second major element of uncertainty in projecting output and prices was the course of defense expenditures in the light of the heightened international tensions provoked by the Soviet Union's invasion of Afghanistan. Opinions differed concerning the speed with which a buildup of defense spending could be accomplished and, consequently, about whether federal spending would contribute more or less to overall demand and output than suggested by the administration's budget. In this connection, it was observed that business outlays could be expected to expand in anticipation of the defense buildup. On the receipts side of the federal budget, tax reductions this year generally were regarded as unlikely—in the absence, at least, of considerably greater weakness in economic activity than was commonly foreseen at this time.

Committee members continued to express great concern about the inflationary environment and its role in generating distortions and instability. It was suggested that the recent international developments, including the further substantial increases in oil prices, were counteracting the progress that had been made in the latter part of 1979 in dampening expected rates of increase in prices.

At this meeting, the Committee completed the review, begun a month earlier, of the ranges for growth of monetary aggregates over the period from the fourth quarter of 1979 to the fourth quarter of 1980 within the framework of the Full Employment and Balanced Growth Act of 1978. The act, which amended section 2A of the Federal Reserve Act, requires the Board of Governors to transmit to the Congress by February 20 and July 20 of each year written reports concerning the objectives and plans of the Board and the Committee with respect to the ranges of growth or diminution of the monetary and credit aggregates for the calendar year during which the report is transmitted and, in the case of the July report, the objectives and plans with respect to ranges for the following calendar year as well. The act also requires that the written reports set forth a review and analysis of recent developments affecting economic trends in the nation and the relationship of the plans and objectives for the aggregates to the short-term goals set forth in the most recent *Economic Report of the President* and to any short-term goals approved by the Congress.[1]

In contemplating monetary growth for the year ahead, the Committee considered ranges for the new definitions of the monetary aggregates: M-1A, M-1B, M-2, and M-3. A description of these newly defined aggregates was announced on February 7. M-1A comprises currency plus demand deposits at commercial banks; it is the same as the displaced M-1, except that demand deposits held by foreign banks and foreign official institutions are excluded. M-1B comprises M-1A and other checkable deposits at all depositary institutions; thus, NOW accounts, ATS, credit union share drafts, and demand deposits at mutual savings banks are included. M-2 contains M-1B and savings and small-denomination time deposits at all depositary institutions, overnight RPs at commercial banks, overnight Eurodollars held at Caribbean branches of member banks by U.S. residents other than banks, and money market mutual fund shares. Finally, M-3 is M-2 plus large-denomination time deposits at all depositary institutions and term RPs at commercial banks and savings and loan associations. From the fourth quarter of 1978 to the fourth quarter of 1979, M-1A grew 5.5 percent, the same as M-1; after taking into account the amount of demand deposits apparently shifted to ATS and New York State NOW accounts, the estimated rate was 6.8 percent. M-1B grew 8.0 percent; M-2, 8.8 percent; and M-3, 9.5 percent.

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[1] The Board's third report under the act was transmitted to the Congress on February 19, 1980.

In contemplating ranges for growth of the monetary aggregates over the year ahead, Committee members stressed the unusually great uncertainties concerning prospects for economic activity and prices and thus for growth of nominal GNP. The shift to new definitions of monetary aggregates introduced additional uncertainties concerning the relationships between them and nominal GNP as well as the relationships among the aggregates themselves in response to changing financial market conditions. Moreover, enactment of pending legislation to authorize NOW accounts nationally would in the short run have a significant impact on growth of some of the monetary aggregates in relation to changes in economic activity. It was noted, however, that the ranges adopted at this meeting could be modified at any time in the light of legislative or other developments and in any event would be reconsidered at midyear.

In the Committee's discussion of the ranges for the coming year, the members agreed that monetary growth should slow further in 1980, following some deceleration over 1979, in line with the continuing objective of curbing inflation and providing the basis for restoration of economic stability and sustainable growth in output of goods and services. Committee members differed somewhat in their views concerning the particular aggregates for which longer-run ranges of growth should be specified. Most members thought that in the present circumstances it was appropriate to specify ranges for the four aggregates, M-1A, M-1B, M-2, and M-3; but some sentiment was also expressed for omitting M-1A from the list, and some for omitting M-3 as well. With respect to M-1A, its growth would be dampened in the event of enactment of nationwide NOW account legislation and, as would be expected, a large transfer of funds from demand deposits to NOW accounts. In support of retaining M-1A on the list, however, it was noted that enactment of the legislation would tend to distort growth of M-1B also—in the opposite direction as a result of transfers of funds from savings deposits to NOW accounts—and no doubt would lead the Committee to reconsider whatever ranges it adopted at this meeting.

A few members favored specification of relatively narrow ranges. In light of the difficulties of maintaining growth within a narrow range and of the uncertainties concerning both the outlook for the economy and the behavior of the newly defined aggregates, however, most members favored ranges on the order of the 3 percentage points adopted for 1979.

At the conclusion of the discussion, the Committee adopted the following ranges for growth of the monetary aggregates over the period from the fourth quarter of 1979 to the fourth quarter of 1980: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for growth of commercial bank credit was 6 to 9 percent. It was understood that the longer-run ranges would be reconsidered in July or at any other time that conditions might warrant. It was also understood that short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

> The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1979 to the fourth quarter of 1980: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for bank credit is 6 to 9 percent.
>
> > Votes for this action: Messrs. Volcker, Balles, Black, Coldwell, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich, and Timlen. Votes against this action: None. (Mr. Timlen voted as an alternate member.)

In contemplating policy for the near term, the Committee took note of a staff analysis indicating that the policy decision taken at the meeting of early January implied an annual rate of growth of about 4½ percent in the new M-1A over the period from December to March. Consistent rates of growth in M-1B and the newly defined M-2 were estimated to be slightly above 5 percent and about 6½ percent respectively. In January M-1A had grown at a rate of about 4¾ percent; growth in M-1B and M-2, at rates of about 6 percent and 8¼ percent respectively, had exceeded their three-month rates by larger margins. Accordingly, monetary growth, particularly as measured by M-1B and M-2, would have to decelerate from January to March if the rates realized for the whole three-month period were to be consistent with those implied by the Committee's decision in January.

The staff analysis also noted that the transactions demand for money in the first quarter implied by projections of nominal GNP were stronger than a month earlier. At the same time, the relationship between money growth and GNP was particularly uncertain because disbursement of the exceptionally large federal income tax refunds beginning in late February could generate a temporary bulge in money demand.

In the Committee's discussion of policy for the period immediately ahead, most members favored essentially an extension of the objectives for the period from December to March that had been established in early January. The behavior of the monetary aggregates had been more or less on course since then and, it was suggested, little had occurred to warrant a change in course. On the other hand, some sentiment was expressed for a reduction in the objectives for monetary growth over the first three months of the year, on the grounds that prospects for economic activity apparently had strengthened since a month earlier and inflationary expectations had worsened.

At the conclusion of the discussion, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth over the first quarter of 1980 at an annual rate of about 4½ percent for M-1A and about 5 percent for M-1B, provided that in the period until the next meeting the weekly average federal funds rate remained within a range of 11½ to 15½ percent. Consistent with this short-run policy, in the Committee's view, the newly defined M-2 should grow at an annual rate of about 6½ percent over the first quarter. If the constraint on the federal funds rate appeared to be inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real output of goods and services expanded somewhat in the final quarter of 1979 and that prices on the average continued to rise rapidly. In December retail sales strengthened, industrial production edged up, and nonfarm payroll employment continued to rise, while private housing starts remained at the reduced level of November. Nonfarm payroll employment rose substantially further in January, but the unemployment rate rose from 5.9 to 6.2 percent. Producer prices of finished goods and consumer prices continued to rise rapidly toward the end of 1979, in part because of the spreading effects of earlier increases in energy costs. Over the past several months the rise in the index of average hourly earnings has remained close to the rapid pace recorded earlier in 1979.
>
> The trade-weighted value of the dollar against major foreign currencies changed little in January, and exchange market pressures were relatively slight in spite of increased international political tensions. The U.S. foreign trade deficit rose in December, in large part because of an increase in imports of petroleum.
>
> Growth of the major monetary aggregates, which had subsided in the final months of 1979, remained at reduced rates in January. Most market interest rates, especially long-term rates, have risen since the Committee's meeting in early January.
>
> Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. The Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3½ to 6, 4 to 6½, 6 to 9, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent.
>
> In the short run, the Committee seeks expansion of reserve aggregates consistent with growth over the first quarter of 1980 at an annual rate of about 4½ percent for M-1A and 5 percent for M-1B, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 11½ to 15½ percent. The Committee believes that, consistent with this short-run policy, M-2 as newly defined should grow at an annual rate of about 6½ percent over the first quarter.
>
> If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Balles, Black, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, and Mr. Timlen. Votes against this action: Messrs. Coldwell and Wallich. (Mr. Timlen voted as an alternate member.)

Messrs. Coldwell and Wallich dissented from this action because they favored a more restrictive policy for the period immediately ahead. Believing that inflationary expectations had worsened in recent weeks while prospects for economic activity had strengthened, they thought that money and credit were too readily available and current levels of interest rates were not exerting sufficient restraint.

Subsequent to the meeting, on February 22, available data suggested that M-1A and M-1B were growing at rapid rates in February, and in consequence the demand for bank reserves had strengthened considerably. The federal funds rate had risen to about 15 percent, and member bank borrowings had also increased. To provide the Manager for Domestic Operations with additional scope for operations in these circumstances, Chairman Volcker recommended that the upper limit of the range of 11½ to 15½ percent specified for the federal funds rate be raised to 16½ percent on a temporary basis until the situation could be reassessed.

On February 22, the Committee modified the domestic policy directive adopted at its meeting on February 4-5, 1980, to raise the upper limit of the range for the federal funds rate to 16½ percent.

Votes for this action: Messrs. Volcker, Balles, Black, Kimbrel, Mayo, Partee, Rice, Schultz, Mrs. Teeters, Messrs. Wallich and Timlen. Votes against this action: None. Absent: Mr. Coldwell. (Mr. Timlen voted as alternate member.)

In the statement week ending March 5, the federal funds rate rose to an average of slightly more than 16⅛ percent and member bank borrowings expanded further to a daily average of about $2½ billion. On March 6 federal funds generally traded around 17 percent, despite sizable reserve-supplying operations by the System, and the Manager advised that in his opinion additional leeway above the existing upper limit of 16½ percent was needed for operational flexibility in meeting reserve objectives. In late afternoon, Chairman Volcker recommended that the upper limit of the intermeeting range for the federal funds rate be raised to 17½ percent, pending a discussion of the situation in a telephone conference of the Committee to be held in the afternoon of the following day, and the Committee voted to approve the Chairman's recommendation.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

In the telephone conference held in the afternoon of March 7, the Committee voted to raise the upper limit of the intermeeting range for the federal funds rate to 18 percent, to provide greater operational flexibility in meeting reserve objectives.

On March 7, the Committee further modified the domestic policy directive adopted at its meeting of February 4-5, 1980, to raise the upper limit of the range for the federal funds rate to 18 percent.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

Meeting Held on March 18, 1980

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services was continuing to grow in the first quarter of 1980 after having expanded at an annual rate of about 2 percent in the fourth quarter of 1979. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to have accelerated in the current quarter from an average rate of about 10 percent during 1979.

Retail sales rose briskly in January, but advance data suggested a moderate decline in February. After adjustment for higher prices, the level in February was close to the average for the fourth quarter. Unit sales of new automobiles in the first two months of the year were considerably above the reduced pace in the fourth quarter.

The index of industrial production rose somewhat in both January and February after changing little during the fourth quarter, and returned to its peak level of March 1979. The rate of capacity utilization in manufacturing was unchanged in February at a level about 3 percentage points below its recent peak in March 1979.

Nonfarm payroll employment, which had expanded substantially in January, rose appreciably further in February, and the rate of unemployment fell 0.2 percentage point to 6.0 percent. Employment in manufacturing continued to change little.

The latest Department of Commerce survey of business spending plans, taken in late January and February, suggested that expenditures for plant and equipment would increase about 11 percent from 1979 to 1980. Adjusted for price increases that were expected by businesses, the survey implied little change in real outlays.

In January housing starts declined further to an annual rate of about 1.4 million units. Since the third quarter of 1979, housing starts had fallen by more than 20 percent and residential building permits by nearly 25 percent. Sales of new single-family homes rose somewhat in January but remained well below their third-quarter level, while sales of existing single-family homes continued to decline.

Producer prices of finished goods rose at a greatly accelerated pace in January and February, and consumer prices also increased at a sharply higher rate in January. The advances reflected a continuing surge in prices of energy-related items and, with the exception of foods, widespread increases in prices of other items as well. During 1979 producer prices had risen 12½ percent and consumer prices about 13¼ percent. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of about 7 percent over the January-February period, compared with a rise of about 8½ percent during 1979.

In foreign exchange markets the dollar had been in strong demand since mid-February, largely in response to sharp increases in U.S. interest rates and, most recently, to the President's announcement of a series of measures designed to curb inflationary pressures in the U.S. economy. By the first part of March the trade-weighted value of the dollar against major foreign currencies had risen to around its high of late October 1979. By mid-March, the dollar had advanced further, to about 6 percent above its level at the time of the February meeting. Over the course of recent weeks foreign monetary authorities had intervened in heavy volume to support their currencies.

In January the U.S. foreign trade deficit increased sharply, despite some reduction in the volume and value of oil imports. Other imports rose substantially, while exports expanded at a reduced pace; agricultural exports were down somewhat from a high December level.

At its meeting on February 4-5, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth from December 1979 to March 1980 at an annual rate of about 4½ percent for M-1A and about 5 percent for M-1B, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 11½ to 15½ percent. In the Committee's view this short-run policy should be consistent with growth in M-2, as newly defined, at an annual rate of about 6½ percent over the first quarter.

Growth in M-1A and M-1B accelerated in February to annual rates of about 12 percent and 11½ percent respectively from rates of about 3½ percent and 4¼ percent in January. Growth in M-2 also quickened in February, to an annual rate of about 10¾ percent from 6¾ percent in January, reflecting in part the continued rapid expansion in money market mutual funds; and growth in M-3 was buoyed by increased issuance of large-denomination time deposits at commercial banks associated with rapid expansion of bank credit. In late February and the first part of March, growth of M-1A and M-1B subsided.

Reflecting the acceleration of monetary growth in February, the demand for bank reserves expanded substantially in relation to the supply of nonborrowed reserves and money market conditions tightened considerably. Effective February 15, Federal Reserve discount rates were raised from 12 percent to 13 percent. The federal funds rate rose from about 13½ percent in the statement week ending February 13, the first full week after the Committee's meeting in early February, to almost 15 percent in the week ending February 20. On February 22 the Committee voted to raise the upper limit of the intermeeting range for the funds rate to 16½ percent, and on March 7 it voted to raise the limit to 18 percent. The federal funds rate averaged about 16½ percent in the week ending March 12, the last complete statement week before this meeting, and exceeded 17 percent on some days in early March. Member bank borrowings rose to an unusually high level of almost $3½ billion in the week ending March 12; in the preceding three weeks borrowings had averaged about $2¼ billion.

Expansion of total credit outstanding at U.S. commercial banks strengthened in January and accelerated further in February. Growth was especially pronounced in business loans, and available reports indicated a surge in demands for loan commitments in the latter part of February and early March. The issuance of commercial paper by nonfinancial corporations strengthened markedly in December and continued very large in January and February.

Interest rates rose sharply during the intermeeting period as inflationary expectations continued to worsen. Upward pressures on rates, especially on short-term rates, also reflected the constraint on the provision of bank reserves in relation to the demand for reserves and the increases in Federal Reserve Bank discount rates on February 15. Such pressures were reinforced in short-term markets by the sizable bank issuance of certificates of deposit and by large sales of Treasury bills by foreign official institutions to finance intervention in foreign exchange markets. Over the period, commercial banks raised their loan rate to prime business borrowers from 15¼ percent to 18½ percent. In home mortgage markets, rates on new commitments advanced sharply further and lenders also tightened other lending terms.

On March 14 the President announced a broad program involving fiscal, energy, credit, and other measures that were designed to help curb inflationary forces in a manner that would also restore the basis for stable economic growth. Consistent with that program and with the continuing objective of the Federal Reserve System to restrain growth in money and credit during 1980, the Board of Governors announced the following actions on March 14 to reinforce the measures announced on October 6, 1979:

1. A voluntary special credit restraint program intended to curb the expansion in credit extensions by a variety of financial institutions.
2. A special deposit requirement of 15 percent for all lenders on increases in certain types of consumer credit.
3. An increase from 8 percent to 10 percent in the marginal reserve requirement on managed liabilities of large member banks and a reduction in the base upon which the reserve requirement is calculated.
4. A special deposit requirement of 10 percent on increases in managed liabilities of large nonmember banks.
5. A special deposit requirement of 15 percent on increases in total assets of money market mutual funds.
6. A surcharge of 3 percentage points on frequent borrowings from the Federal Reserve Banks by member banks with deposits of $500 million or more.

In part because of the new program announced on March 14, projections of activity and prices at this time were subject to more uncertainty than usual. Staff projections prepared for this meeting suggested that real GNP probably would turn down in the second quarter and that the contraction in activity was likely to persist for a number of quarters and to be accompanied by a significant increase in the unemployment rate. The rise in average prices was projected to moderate from the accelerated pace in the first quarter but to remain rapid.

In the Committee's discussion of the economic situation, many of the members continued to stress the unusual uncertainties affecting economic forecasts, although the likelihood of some decline in activity over the rest of 1980 was broadly accepted. With respect to price prospects, it was suggested that the underlying inflation rate would not be reduced very much in the short run by the rather moderate contraction in activity generally being projected.

Contrary to widespread expectations, it was noted, expansion in some sectors of the economy had been strong enough in recent months to sustain overall output despite considerable weakness in the automobile and housing markets. For the period immediately ahead, the course of total output appeared to be dependent to a considerable degree on whether consumer expenditures for goods and services remained abnormally high in relation to disposable income or tended to decline. While the strength of investment activity and apparently balanced inventory behavior suggested a mild recession, the possibility was recognized that a recession, whenever it occurred, could be exacerbated by the accumulation of sizable amounts of debt, by businesses as well as consumers, at exceptionally high interest rates and by other developing strains in the financial system.

At its meeting on February 4-5, 1980, the Committee had agreed that from the fourth quarter of 1979 to the fourth quarter of 1980 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. It had also been agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be reconsidered in July or at any other time that conditions might warrant, and also that short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis indicating that growth of M-1A and M-1B over the first two months of the year had substantially exceeded the pace consistent with the objectives for the December-March period established by the Committee at its preceding meeting. Accordingly, extension of the first-quarter objectives for M-1A and M-1B through the second quarter, in keeping with the Committee's objectives for monetary growth over the whole year, would imply a considerable slowing of growth from February to June. The staff analysis also noted that monetary growth had subsided in recent weeks; available data indicated little if any growth of M-1A in March, even if growth resumed in the latter part of the month.

Growth of M-2 over the first half associated with extension of the earlier objectives for M-1A and M-1B would be more rapid than had been contemplated for the first quarter, but the projected rate nevertheless was well within the range established for the year as a whole. Owing to the public's response to the high market interest rates prevailing, expansion of money market mutual funds in the first two months of the year had been stronger than expected. Whether their expansion would remain relatively strong depended in part on the adjustments the funds made to the new special deposit requirement imposed on the increase in their assets.

In the Committee's discussion of policy for the period immediately ahead, most members favored essentially an extension through the second quarter of the objectives for the first quarter that had been established at the meeting in early February. Specifically, they favored annual rates of growth over the first half of the year of about $4^{1}/_{2}$ percent for M-1A and about 5 percent for M-1B, with an associated rate of about $7^{3}/_{4}$ percent for M-2. Such a policy was viewed as sufficiently restrictive, especially in light of its implication for a significant slowing of monetary growth over the period from February to June. However, some sentiment was also expressed for seeking slightly lower rates of growth over the first half, to underscore support for the new anti-inflation program by making clear that general credit restraint would not be relaxed.

Many members expressed concern about the possibility that a bulge in monetary growth in April, even if it followed little growth or a decline in March, would have an adverse impact on market psychology and on assessments of the likely success of the new program in helping to contain inflation. While favoring essentially an extension of the first-quarter objectives for monetary growth that had been established at the preceding meeting, they also advocated directing operations in the period immediately ahead toward working against any bulge that might be developing and assuring that excessive growth in April, should it occur, would be compensated for in succeeding months. These members in general felt that, in the process, they would be willing to tolerate somewhat less growth over the first half of the year than the annual rates of $4^{1}/_{2}$ percent for M-1A and 5 percent for M-1B that represented an extension of the first-quarter objectives.

Members differed in their views concerning the range to be specified for the weekly average federal funds rate during the period before the next meeting of the Committee. Sentiment was expressed for a number of variations: retaining the widened range of $11^{1}/_{2}$ to 18 percent existing since the Committee's vote on March 7 to raise the upper limit; restoring the range to the more customary 4 percentage points by raising the lower limit to 14 percent; and raising the upper limit to 20 percent, with no change in the lower limit or with an increase in that limit to $13^{1}/_{2}$ or 14 percent. It was observed, in this connection, that the Committee had, and frequently used, established procedures for changing specifications during periods between meetings when circumstances seemed to warrant such changes.

The suggestion was made that the language of the domestic policy directive take account of the new voluntary special credit restraint program. That might be done by including a reference in the operational paragraphs to an expectation of an appropriate slowing of growth in bank credit in the months ahead.

At the conclusion of the discussion, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth over the first half of 1980 at annual rates of $4^{1}/_{2}$ percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 13 to 20 percent. Consistent with this short-run policy, in the Committee's view, M-2 should grow at an annual rate of about $7^{3}/_{4}$ percent over the first half, and expansion of bank credit should slow in the months ahead to a pace compatible with growth over the year as a whole within the range of 6 to 9 percent agreed upon. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real output of goods and services continued to grow in the first quarter of 1980 and that the rise in prices accelerated. In February retail sales declined moderately, but the decrease followed an exceptionally large increase in January. Industrial production expanded somewhat in both months, after a period of little change, and nonfarm payroll employment continued to rise. The unemployment rate edged down in February to 6.0 percent. Private housing starts declined further in January and were more than one-fifth below the rate in the third quarter of last year. The rise in producer prices of finished goods and in consumer prices was more rapid in the first month or two of 1980 than in 1979, despite some easing in prices of foods. Over the first two months of 1980 the rise in the index of average hourly earnings was somewhat below the rapid pace recorded in 1979.

The dollar has been in strong demand in exchange markets since mid-February, largely in response to rising U.S. interest rates; by early March the trade-weighted value of the dollar against major foreign currencies had returned to about the level reached at the end of last October, and since then, it has risen further. Intervention by foreign monetary authorities to support their currencies was very heavy in February and the first half of March. The U.S. foreign trade deficit rose sharply in January although the volume and value of imports of petroleum were somewhat reduced.

Growth of M-1A and M-1B, which had remained moderate in January, accelerated sharply in February, and growth of M-2 also quickened. In recent weeks, however, monetary growth has subsided. Expansion of commercial bank credit picked up in the first two months of this year from the reduced pace in the fourth quarter of 1979. Market interest rates have risen substantially in recent weeks. An increase in Federal Reserve discount rates from 12 to 13 percent was announced early on February 15, effective immediately.

On March 14 the President announced a broad program of fiscal, energy, credit, and other measures designed to moderate and reduce inflationary forces in a manner that can also lay the groundwork for a return to stable economic growth. Consistent with that objective and with the continuing intent of the Federal Reserve System to restrain growth in money and credit during 1980, the Board of Governors took the following actions to reinforce the effectiveness of the measures announced in October 1979: (1) A special credit restraint program; (2) A special deposit requirement for all lenders on increases in certain types of consumer credit; (3) An increase in the marginal reserve requirement on managed liabilities of large member banks; (4) A special deposit requirement on increases in managed liabilities of large nonmember banks; (5) A special deposit requirement on increases in total assets of money market mutual funds; (6) A surcharge of 3 percentage points on frequent borrowing of large member banks from Federal Reserve Banks.

Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on February 4-5, 1980, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of $3^1/_2$ to 6, 4 to $6^1/_2$, 6 to 9, and $6^1/_2$ to $9^1/_2$ percent respectively. The associated range for bank credit was 6 to 9 percent.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth over the first half of 1980 at an annual rate of 4½ percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 13 to 20 percent. The Committee believes that, consistent with this short-run policy, M-2 should grow at an annual rate of about 7¾ percent over the first half and expansion of bank credit should slow in the months ahead to a pace compatible with growth over the year as a whole within the range agreed upon.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Winn, and Timlen. Vote against this action: Mr. Wallich. (Mr. Timlen voted as alternate member.)

Mr. Wallich dissented from this action because he favored pursuit of a more restrictive policy for the period immediately ahead to assure maintenance of firm general credit restraint, especially as a means of buttressing the new anti-inflation program.

2. Review of Continuing Authorizations

This being the first regular meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1980, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the authorization for domestic open market operations, the foreign currency directive, and the procedural instructions with respect to foreign currency operations in the forms in which they were currently outstanding.

Votes for these actions: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against these actions: None. (Mr. Timlen voted as alternate member.)

In reviewing the authorization for domestic open market operations, the Committee took special note of paragraph 3, which authorizes the Reserve Banks to engage in the lending of U.S. government securities held in the System Open Market Account under such instructions as the Committee might specify from time to time. That paragraph had been added to the authorization on October 7, 1969, on the basis of a judgment by the Committee that such lending of securities was reasonably necessary to the effective conduct of open market operations and to the implementation of open market policies, and on the understanding that the authorization would be reviewed periodically. At this meeting the Committee concurred in the judgment of the Manager for Domestic Operations that the lending activity in question remained reasonably necessary and that, accordingly, the authorization should remain in effect subject to annual review.

3. Authorization for Foreign Currency Operations

The Committee reaffirmed the authorization for foreign currency operations, with a technical modification. In paragraph 6, the title "Manager for Foreign Operations" was substituted for "Manager" the first time the latter appeared, in recognition that positions and titles relating to management of the System Open Market Account had been changed since the Committee had last conducted its annual review of its continuing authorizations and directives.

> Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

Pursuant to paragraph 3 of the authorization for foreign currency operations, the Committee expressly authorized the Federal Reserve Bank of New York, for the System Open Market Account, to enter into contracts to purchase foreign exchange at specified rates that reflected market rates of late February and early March when contract discussions were initiated and simultaneously to transfer the foreign exchange so acquired directly to the Exchange Stabilization Fund (ESF) at those same rates.

> Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

4. Agreement with Treasury to Warehouse Foreign Currencies

At its meeting on January 17-18, 1977, the Committee had agreed to a suggestion by the Treasury that the Federal Reserve undertake to "warehouse" foreign currencies—that is, to make spot purchases of foreign currencies from the ESF and simultaneously to make forward sales of the same currencies at the same exchange rate to the ESF. Pursuant to that agreement, the Committee had agreed in December 1978, that the Federal Reserve would be prepared to warehouse for the Treasury or for the ESF up to $5 billion of eligible foreign currencies for periods of up to 12 months. In view of the U.S. program of issuing notes denominated in foreign currencies, the Committee voted at this meeting to reaffirm the agreement to warehouse up to $5 billion of foreign currencies and to drop the 12-month limitation on the period such currencies could be warehoused. It was understood that the basic agreement would be subject to annual review.

> Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. (Mr. Timlen voted as alternate member.)

5. Authorization for Domestic Open Market Operations

On April 16, 1980, the Committee voted to increase from $3 billion to $4½ billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on April 22, 1980.

> Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Mrs. Teeters, Messrs. Wallich, Winn, and Timlen. Votes against this action: None. Absent and not voting:

Mr. Solomon. (Mr. Timlen voted as alternate for Mr. Solomon.)

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the March meeting, large-scale purchases of securities had been undertaken to counter the effects on member bank reserves of a decline in float, an increase in currency in circulation, and a rise in required reserves associated with the System actions announced on March 14. As a result, the leeway for further purchases had been reduced to less than $200 million. It appeared likely that additional purchases would be required because projections indicated a need for further reserve-providing operations in the week ahead.

Meeting Held on April 22, 1980

Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity turned down in the latter part of the first quarter of 1980. For the quarter as a whole, however, real gross national product grew at an annual rate of about 1 percent, according to preliminary estimates of the Commerce Department, compared with a rate of 2 percent in the fourth quarter of 1979.

Retail sales on a constant-dollar basis fell sharply in February and March, after having increased in January, and were estimated to have declined over the first quarter as a whole. Unit sales of new automobiles slowed in both February and March from a brisk pace in January and apparently remained weak in early April.

Private housing starts fell considerably in January and February and dropped sharply further in March to an annual rate of just over one million units, about 40 percent less than in the second and third quarters of 1979 and the lowest rate since April 1975. Building permits for new units also declined substantially further in March. In February sales of single-family homes fell for the fifth consecutive month.

The index of industrial production fell 0.8 percent in March, after changing little on balance in other recent months. The March decline reflected widespread cutbacks in output of final products and materials. The rate of capacity utilization in manufacturing fell nearly 1 percentage point in March to 83 percent, about 4 percentage points below its recent high in March 1979.

Nonfarm payroll employment declined appreciably in March following a substantial rise earlier in the year, and the rate of unemployment rose 0.2 percentage point to 6.2 percent. Employment in manufacturing fell somewhat in March after changing little in January and February, and the length of the average workweek was reduced for the second consecutive month.

The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, accelerated to an annual rate of about 12 percent in the first quarter from a rate of about 10 percent during 1979. Producer prices of finished goods and consumer prices rose at annual rates of about 19 percent and 18 percent respectively during the first quarter. The advances reflected a continuing surge in prices of energy-related items and substantial increases in prices of numerous other items. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of $9^{1}/_{2}$ percent during the first quarter, compared with a rise of about $8^{1}/_{2}$ percent during 1979.

In foreign exchange markets the strong demand for dollars that emerged in mid-February persisted through early April, but some selling pressure developed in the second week of April, in large measure because accumulating signs of a recession in the United States led many market participants to conclude that U.S. interest rates had peaked. Despite the recent weakening of the dollar, its trade-weighted value against major foreign currencies was currently about 5 percent above its level of early February.

The U.S. foreign trade deficit rose further in February following a sharp increase in January. The marked increase over the first two months of 1980 reflected a surge in imports, associated in large part with rising prices, that was only partly offset by a moderate expansion in exports.

At its meeting on March 18, the Committee had agreed that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth over the first half of 1980 at annual rates of $4^{1}/_{2}$ percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 13 to 20 percent. In the Committee's view, this short-run policy should be consistent with growth in M-2 at an annual rate of about $7^{3}/_{4}$ percent over the first half of the year.

During the first part of the intermeeting period, demands for bank reserves continued strong in relation to the supply being made available through open market operations, and the federal funds rate rose from an average of $16^{1}/_{4}$ percent in the statement week ending March 19 to about $19^{3}/_{8}$ percent in the week ending April 2. Subsequently, the demand for bank reserves eased, and the funds rate dropped to an average of about $18^{3}/_{8}$ percent in the week ending April 16. Member bank borrowings averaged around \$$2^{1}/_{4}$ billion in the three statement weeks ending April 16, down from an average of about \$$3^{1}/_{4}$ billion in the preceding two weeks.

The monetary aggregates weakened substantially in March after growing at accelerated rates in February. M-1A and M-1B, which had expanded at annual rates of around 12 percent in February, declined at annual rates of $3^{1}/_{2}$ and 2 percent respectively in March, and available data suggested further contraction in early April. Growth in M-2 slowed from an annual rate of $10^{3}/_{4}$ percent in February to $3^{1}/_{2}$ percent in March, reflecting mainly the contraction in the narrow measures of the money stock. Growth in money market mutual funds slowed markedly on a monthly average basis, but the impact on M-2 was offset by greater strength in small-denomination time deposits, principally reflecting rapid growth in money market certificates. From December to March, M-1A and M-1B grew at annual rates of about 4 percent and $4^{1}/_{2}$ percent respectively, and M-2 expanded at a rate of 7 percent.

Expansion of total credit outstanding at U.S. commercial banks slowed substantially in March after accelerating earlier in the year. The slowdown was especially pronounced for business loans, but growth in real estate loans also moderated appreciably. Overall expansion in short-term business credit remained relatively strong as nonfinancial corporations continued to issue large amounts of commercial paper.

Most market interest rates declined considerably on balance during the intermeeting period. Following the Committee's meeting on March 18, interest rates extended earlier advances and reached new highs in late March or early April. Subsequently, most interest rates turned down, with the federal funds rate falling moderately and other rates declining sharply as market participants reacted to accumulating signs of a slowdown in economic activity and to weakening in the monetary aggregates. During the period commercial banks initially raised their loan rate to prime business borrowers from 18½ percent to 20 percent and then lowered it to 19½ percent. In primary markets for home mortgages, average rates on new commitments leveled out at around 16½ percent.

Staff projections prepared for this meeting suggested that real GNP would decline in the current quarter and continue to move lower for a number of quarters. The contraction in activity was projected to be somewhat larger than had been anticipated a month earlier and to be accompanied by a substantial increase in unemployment. The rise in average prices was projected to remain rapid, although some moderation was expected after the current quarter.

In the Committee's discussion of the economic situation, the judgment was broadly shared that a decline in overall activity had probably begun, especially in light of new evidence that had accumulated since the Committee's meeting in March. It was emphasized, however, that uncertainties concerning the outlook persisted and that, in any case, forecasting the severity and duration of a recession was always difficult.

The degree of prospective weakness in consumer spending was viewed as a major source of uncertainty. The anti-inflationary measures announced on March 14 appeared to have curbed considerably spending in anticipation of price increases. It was noted in this connection that a rise in the saving rate from the abnormally low levels of the most recent two quarters to a more normal rate would imply a marked cutback in consumer spending. Such a development would also tend to depress business investment in inventories and plant and equipment. However, it would be premature to conclude that inflationary attitudes and behavior had been fundamentally altered, especially in view of the prospect that the rapid rise in the consumer price index would persist for a number of months.

At its meeting on February 4–5, 1980, the Committee had agreed that from the fourth quarter of 1979 to the fourth quarter of 1980 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. It had also been agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be reconsidered in July or at any other time that conditions might warrant, and also that short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis indicating that M-1A and M-1B were likely to decline further on the average in April and, consequently, that growth over the first four months of the year would fall considerably short of the objectives for the first half of the year established by the Committee at its meeting in March. Thus, realization of those objectives would require substantial expansion in M-1A and M-1B over May and June. A significant rebound in their growth was likely over the two-month period, given the staff projection of a fairly sizable expansion in nominal GNP in the current quarter and the associated increase in the transactions demand for money, but efforts to realize the first-half objectives for growth established in March could require System open market operations that would put further downward pressure on the federal funds rate. The staff analysis also suggested that growth of M-2 over the half year was likely to be lower in relation to growth of the narrower monetary aggregates than had been thought a month earlier, owing to a scaling down of expected expansion in money market mutual funds.

In the Committee's discussion of policy for the period immediately ahead, most members favored reaffirming the monetary growth objectives for the first half of 1980 that had been established at the previous meeting, but some sentiment was also expressed for lower rates of monetary growth. The members generally accepted the view that retention of the earlier objectives for monetary growth was likely to be associated with further downward pressure on interest rates.

Several members noted their concern that if a large decline in interest rates were to occur over the next few weeks, it was likely to be perceived by some market participants—depending upon which variables they thought important—as an easing of monetary policy and could have very undesirable repercussions on inflationary psychology and on the dollar in foreign exchange markets. Such a decline in interest rates could ultimately prove especially troublesome and unsettling to financial markets if after a short interval a stronger-than-expected resurgence in monetary and credit expansion led to its reversal. The view was also expressed that the course of economic activity would not be adversely affected if any decline in interest rates were gradual rather than precipitous.

Other members, however, stressed the risk that a continued shortfall in monetary growth and persistence of relatively high interest rates could exacerbate recessionary forces in the economy. It was observed that a significant decline in interest rates, if that were to occur in coming weeks, should be regarded as a consequence of the Committee's continuing emphasis on its announced objectives for achieving limited monetary growth and not as a shift toward a stimulative policy. The Committee's monetary objectives should be perceived as fully consistent with a moderation of inflationary forces over time as well as with resistance to recessionary tendencies in the short run. With respect to foreign exchange markets, the view was expressed that the possibility of downward pressure on the dollar in association with a relative decline in U.S. interest rates would have to be faced sooner or later. On the other hand, some decline in U.S. interest rates might already have been discounted, and exchange markets should in any event be reassured by the general thrust of monetary policy and the prospect for improvement over time in the performance of the current account. It was also noted that U.S. interest rates remained higher than key interest rates abroad.

In light of the outlook for a somewhat lower federal funds rate in the weeks immediately ahead, most members believed it would be appropriate to reduce the upper limit of the current range, and several members suggested 19 percent for the new upper limit. Most members expressed a preference for retaining the current lower limit of 13 percent.

At the conclusion of the discussion, the Committee agreed that open market operations in the period until the next meeting should continue to be directed toward expansion of reserve aggregates consistent with growth over the first half of 1980 at annual rates of 4½ percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 13 to 19 percent. Consistent with this short-run policy, in the Committee's view, M-2 should grow at an annual rate of about 6¾ percent over the first half, and expansion of bank credit should slow in the months ahead to a pace compatible with growth over the year as a whole within the range of 6 to 9 percent agreed upon. It was generally recognized that conditions could arise that might make desirable a review of the situation in advance of the next regular meeting scheduled for May 20. In any case, if it appeared that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that economic activity turned down in the latter part of the first quarter of 1980, although for the quarter as a whole real GNP expanded somewhat further and the rise in prices accelerated. Retail sales in real terms declined sharply in February and March, after having increased in January. In March industrial production and nonfarm payroll employment declined, and the unemployment rate edged up to 6.2 percent. Private housing starts declined throughout the first quarter, to a rate in March about two-fifths below that in the third quarter of last year. The rise in producer prices of finished goods and in consumer prices was considerably more rapid during the first three months of 1980 than in 1979. Over the first quarter, the rise in the index of average hourly earnings was somewhat above the rapid pace recorded in 1979.
>
> The strong demand for the dollar in exchange markets that began in mid-February persisted through early April. Some selling pressure developed in the second week of April as market participants reacted to indications that U.S. interest rates might have peaked, but the trade-weighted value of the dollar against major foreign currencies re-

mained well above its level of early February. The U.S. foreign trade deficit rose further in February.

M-1A and M-1B, which had expanded sharply in February, contracted in March and early April; M-2 increased relatively little in March. From December to March, M-1A and M-1B grew at annual rates of about 4 percent and $4^{1}/_{2}$ percent respectively, and M-2 grew at a rate of 7 percent. Expansion of commercial bank credit slowed substantially in March from the accelerated pace earlier in the year. Since mid-March, most market interest rates on balance have declined considerably.

Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on February 4-5, 1980, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of $3^{1}/_{2}$ to 6, 4 to $6^{1}/_{2}$, 6 to 9, and $6^{1}/_{2}$ to $9^{1}/_{2}$ percent respectively. The associated range for bank credit was 6 to 9 percent.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth over the first half of 1980 at an annual rate of $4^{1}/_{2}$ percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 13 to 19 percent. The Committee believes that, to be consistent with this short-run policy, M-2 should grow at an annual rate of about $6^{3}/_{4}$ percent over the first half and that bank credit should grow in the months ahead at a pace compatible with growth over the year as a whole within the range agreed upon.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, and Mr. Winn. Vote against this action: Mr. Wallich.

Mr. Wallich dissented from this action because he believed that it represented a premature and excessive relaxation of restraint. He favored a policy for the period until the next meeting directed toward lower rates of monetary growth over the first half of the year, accompanied by an intermeeting range for the federal funds rate that would allow for considerably less decline.

On May 6 the Committee held a telephone conference to review the situation and to consider whether supplementary instructions were needed. Available data suggested that the demand for money and hence the demand for reserves had remained weak, and the federal funds rate most recently had fallen below the 13 percent lower limit of the intermeeting range of 13 to 19 percent. The Committee voted to reduce the lower limit of the intermeeting range for the funds rate to $10^{1}/_{2}$ percent.

On May 6 the Committee modified the domestic policy directive adopted at its meeting on April 22, 1980, to reduce the lower limit of the range for the federal funds rate to $10^{1}/_{2}$ percent.

Votes for this action: Messrs. Volcker, Morris, Rice, Roos, Schultz, Mrs. Teeters, and Mr. Winn. Votes against this action: Messrs. Guffey, Solomon, and Wallich. Absent: Mr. Partee.

Messrs. Guffey and Solomon voted against this action because they preferred smaller reductions in the lower limit of the federal funds rate and Mr. Wallich voted against it because he preferred to maintain the lower limit at 13 percent.

Meeting Held on May 20, 1980

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services was declining markedly in the current quarter after increasing at an annual rate of 0.6 percent in the first quarter. However, average prices, as measured by the fixed-weight price index for gross domestic business product, were continuing to rise at a rapid pace following increases at an annual rate of about 11 percent in the first quarter and nearly 10 percent during 1979.

The dollar value of total retail sales fell substantially further in April after declining sharply in February and March. Unit sales of new automobiles slowed markedly further in April to the lowest level since the spring of 1975 and apparently remained exceptionally weak in early May.

The index of industrial production fell 1.9 percent in April, following small reductions in February and March. The April decline reflected widespread cutbacks in output. The rate of capacity utilization in manufacturing fell 2 percentage points further in April to 81 percent, 6 percentage points below the recent peak in March 1979.

In April nonfarm payroll employment declined substantially following a moderate reduction in March, and the rate of unemployment rose from 6.2 to 7.0 percent. Decreases in employment were especially pronounced in automobile- and construction-related industries. The length of the average workweek fell for the third successive month.

Private housing starts declined throughout the first quarter and edged down further in April to an annual rate of about 1 million units. Building permits for new units were down substantially further in April. In March sales of single-family homes fell for the sixth consecutive month.

The rise in producer prices of finished goods moderated appreciably in April, reflecting a large drop in prices of consumer foods and a less rapid advance in prices of energy-related items than in earlier months. In the first quarter both producer prices and consumer prices had risen at accelerated rates following rapid advances in 1979. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of about 8 percent over the first four months of the year, compared with an increase of 8½ percent during 1979.

In foreign exchange markets the dollar had remained under downward pressure over most of the previous four weeks. Such pressure, which had emerged in early April, reflected primarily a sharp decline in interest rates on dollar assets in relation to those on foreign-currency assets. The trade-weighted value of the dollar against major foreign currencies had fallen about 3½ percent since the Committee's meeting on April 22 and about 7½ percent since early April.

The U.S. foreign trade deficit increased substantially from the fourth quarter of 1979 to the first quarter of 1980 despite a considerable reduction in March from the average in

January and February. For the quarter as a whole, imports, including both petroleum and nonpetroleum products, rose at a much faster rate than exports even though nonagricultural exports exhibited considerable strength.

At its meeting on April 22, the Committee had agreed that open market operations in the period until this meeting should continue to be directed toward expansion of reserve aggregates consistent with growth over the first half of 1980 at annual rates of 4$^1/_2$ percent for M-1A and 5 percent for M-1B, or somewhat less, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 13 to 19 percent. In the Committee's view, this short-run policy should be consistent with growth in M-2 at an annual rate of about 7$^3/_4$ percent over the first half of the year. The Committee had also agreed that if the constraint on the federal funds rate appeared to be inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

Immediately after the meeting, required reserves and thus member bank demands for reserves began to fall substantially in relation to the supply being made available through open market operations, reflecting a sharp weakening of the monetary aggregates during April. Consequently, member bank borrowings for adjustment purposes and the federal funds rate both declined sharply. On May 6, after the funds rate had fallen below the 13 percent lower limit of the Committee's intermeeting range and available data had suggested that the demand for money and for reserves had remained weak, the Committee voted to reduce the lower limit of the intermeeting range for the funds rate to 10$^1/_2$ percent. In the statement week ending May 14, the funds rate averaged 10$^7/_8$ percent, down from an average of about 18$^3/_8$ percent in the statement week ending April 16.

In April M-1A and M-1B contracted at annual rates of 18$^1/_2$ and 14$^1/_2$ percent respectively following small declines in March, while M-2 fell at an annual rate of about 3 percent after increasing moderately in March. As a result, expansion of the monetary aggregates—especially M-1A and M-1B—over the first four months of the year averaged well below the growth paths set by the Committee for the first half; M-1A declined at an annual rate of 1$^1/_2$ percent over that period; M-1B was unchanged; and M-2 expanded at an annual rate of 4$^1/_2$ percent. In early May, however, there were substantial increases in demand deposits and money market mutual funds.

Total credit outstanding at U.S. commercial banks contracted in April after expanding at a substantially reduced pace during March. The April decline reflected reductions in both investments and loans, which included a drop in business loans. Net issues of commercial paper by nonfinancial corporations moderated in April from an exceptionally strong pace during the first quarter.

Interest rates fell sharply further during the intermeeting period as market participants reacted to accumulating signs of a slowdown in economic activity, to sustained weakness in the money stock, and to the decline in the federal funds rate. The rate declines were especially pronounced in short-term debt markets, but bond yields also moved substantially lower. Commercial banks reduced their loan rate to prime business borrowers from 19½ to 16½ percent over the interval. In primary markets for home mortgages, average rates on new commitments at sampled savings and loan institutions fell more than 2 percentage points to about 14⅛ percent. On May 6 the Federal Reserve announced the removal of the surcharge of 3 percentage points on frequent borrowings from the Federal Reserve Banks by member banks with deposits of $500 million or more. This surcharge had been imposed in mid-March as part of a broad program of credit restraint.

Staff projections prepared for this meeting suggested a larger decline in real GNP in the current quarter than had been anticipated a month earlier. Further declines were expected in subsequent quarters, and unemployment was projected to increase substantially. Prices of goods and services were projected to continue under substantial upward pressure, although the rate of increase was not expected to be so rapid as in the first quarter.

Committee members agreed that a marked contraction in real GNP was under way in the current quarter. The rapidity of the decline, reflecting in part the abrupt weakening in consumption expenditures, suggested a risk that the contraction would prove to be deeper than was widely expected. At the same time, inflation remained a serious problem. The rise in prices appeared likely to remain rapid, even though there were grounds for anticipating some moderation of the rise over the months ahead.

At its meeting on February 4-5, 1980, the Committee had agreed that from the fourth quarter of 1979 to the fourth quarter of 1980 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. It had also been agreed that the longer-run ranges, as well as the particular aggregates for which such ranges were specified, would be reconsidered in July or at any other time that conditions might warrant, and also that short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis indicating that growth of M-1A and M-1B over the first four months of the year had fallen considerably short of the rates consistent with the objectives for the first half of the year that the Committee had established at its meeting in March and reaffirmed at its meeting in April. Some rebound in growth of these aggregates was likely to occur over the May-June period, assuming interest rates at around current levels and given the staff projection of expansion in nominal GNP during the second quarter and the public's likely need to rebuild depleted cash balances. It still seemed likely, however, that growth of these aggregates over the first half of 1980 would fall considerably short of the rates consistent with the Committee's ranges for the year from the fourth quarter of 1979 to the fourth quarter of 1980. Growth of M-2 and M-3 appeared to be less weak relative to the Committee's longer-run ranges than that of the narrowly defined aggregates.

In the Committee's discussion of policy, the members agreed that operations in the period immediately ahead should be directed toward expansion of monetary aggregates at rates high enough to promote achievement of the Committee's objectives for monetary growth over the year, recognizing that a number of months might well be required in the process. They differed to some extent in their views concerning the speed with which that goal should be sought and about the further near-term decline in the federal funds rate that might be tolerated in its pursuit.

Several members believed that if the demand for money were to remain weak, the Committee should move in a relatively gradual fashion over the balance of the year to restore the desired longer-run rates of money growth. Concern was expressed that a more aggressive approach would lead to such sharp declines in the federal funds rate and other short-term interest rates in the period immediately ahead that there could be a perverse impact on long-term interest rates by exacerbating inflationary expectations, and there could also be strong adverse effects on the value of the dollar in foreign exchange markets. Moreover, aggressive efforts to promote monetary growth might have to be reversed before long, perhaps leading to significant increases in interest rates in a period of substantial weakness in the economy. The possibility was also suggested that the demand for money had shifted downward once again, so that vigorous efforts in the short run to bring monetary growth into line with the Committee's longer-run objectives could result in excessive creation of money.

Other members of the Committee preferred efforts to bring monetary growth more promptly into line with the Committee's objectives for the year. Such an approach, which they regarded as more consistent with the operating procedures the Committee had been following since early October 1979, could make an important contribution to moderating the severity of the recession.

At the conclusion of the discussion, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 at rates high enough to promote achievement of the Committee's objectives for monetary growth for the year as a whole, provided that in the period before the next regular meeting the weekly average federal funds rate remained within a range of $8^1/_2$ to 14 percent. Specifically, the Committee agreed that operations should be directed toward encouraging growth of M-1A, M-1B, and M-2 over May and June at annual rates of 7 to $7^1/_2$ percent, $7^1/_2$ to 8 percent, and about 8 percent respectively. The Committee also agreed that, in light of the recent shortfall, moderately faster monetary growth would be acceptable if that developed in response to a strengthening of the demand for money. It was understood that if the demand for money and for bank reserves proved to be weak and the federal funds rate declined significantly within its specified range, the

Committee would review the situation in advance of the next regular meeting scheduled for July 9. In any case, if it appeared that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests a marked contraction in real GNP in the current quarter. In April the dollar value of total retail sales declined substantially for the third consecutive month. Industrial production and nonfarm payroll employment were curtailed sharply, and the unemployment rate rose from 6.2 to 7.0 percent. Private housing starts, which had declined throughout the first quarter to a relatively low rate, edged down further in April. The overall rise in prices of goods and services has remained rapid in recent months, although in April the rise in producer prices of finished goods was slowed by a large decrease in foods and by a lessening of the rapid rise in energy items. Over the first four months of the year, the rise in the index of average hourly earnings was somewhat less than the rapid pace recorded in 1979.
>
> The downward pressure on the dollar in exchange markets that emerged in early April has continued over most of the past four weeks, in response primarily to the sharp decline in U.S. interest rates relative to foreign interest rates; the trade-weighted value of the dollar against major foreign currencies has declined about 3½ percent. The U.S. foreign trade deficit was substantially larger in the first quarter of 1980 than in the preceding quarter, despite a considerable decline in March from the average in the preceding two months.
>
> M-1A and M-1B contracted sharply further in April, and M-2 also declined. Commercial bank credit, both loans and investments, contracted in April after having slowed substantially in March. Over recent weeks, market interest rates have declined sharply further.
>
> Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. At its meeting on February 4–5, 1980, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3½ to 6, 4 to 6½, 6 to 9, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent.
>
> In the short run, the Committee seeks expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 at rates high enough to promote achievement of the Committee's objectives for monetary growth over the year, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 8½ to 14 percent.
>
> If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Guffey, Morris, Rice, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against this action: Messrs. Partee and Roos.

Mr. Partee dissented from this action because he believed that it involved a risk of extending the shortfall in monetary growth relative to the Committee's growth ranges for the year. In an effort to guard against the continuation of such a shortfall, which could worsen recessionary prospects, he preferred to direct operations toward achieving somewhat higher rates of monetary growth in the May-June period. He also preferred an intermeeting range for the federal funds rate with a lower limit below $8\frac{1}{2}$ percent, because such a range would be less likely to interfere with reserve-supplying operations consistent with the objectives for the aggregates.

Mr. Roos dissented because in his view the annual growth rate objective of $3\frac{1}{2}$ to 6 percent for M-1A established by the Committee in February 1980 was consistent with reduction of inflation without aggravating recessionary pressures. He believed that the $8\frac{1}{2}$ to 14 percent constraint on the federal funds rate was incompatible with that agreed-upon objective and would cause money growth to remain below it. Such slow growth would unnecessarily exacerbate the current economic slowdown. Historically, deep recessions had inevitably brought about countermeasures that intensified inflation.

2. Authorization for Foreign Currency Operations

The Committee approved an increase from $300 million to $500 million in the System's swap arrangement with the Bank of Sweden and the corresponding amendment to paragraph 2 of the authorization for foreign currency operations, effective May 23, 1980, for a period of one year. With this change paragraph 2 read as follows:

> 2. The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the System Open Market Account for periods up to a maximum of 12 months with the following foreign banks, which are among those designated by the Board of Governors of the Federal Reserve System under Section 214.5 of Regulation N, Relations with Foreign Banks and Bankers, and with the approval of the Committee to renew such arrangements on maturity:

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000
Bank of France	2,000
German Federal Bank	6,000
Bank of Italy	3,000
Bank of Japan	5,000
Bank of Mexico	700
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	500
Swiss National Bank	4,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,250

> Any changes in the terms of existing swap arrangements, and the proposed terms of any new arrangements that may be authorized, shall be referred for review and approval to the Committee.

> Votes for this action: Messrs. Volcker, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against this action: None.

This action was taken to expand the short-term financing facilities available to the Bank of Sweden.

Meeting Held on July 9, 1980

1. Domestic Policy Directive

The information reviewed at this meeting indicated that real output of goods and services had declined markedly in the second quarter after having expanded at an annual rate of 1.2 percent in the first quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, continued to rise at a rapid pace, but not so rapidly as in the first quarter.

The dollar value of total retail sales declined substantially in May for the fourth consecutive month; in real terms such sales had fallen 10 percent below their peak in January, the sharpest four-month drop on record. Unit sales of new automobiles slowed considerably further in May and remained weak in June.

The index of industrial production fell 2.1 percent in May, following a similar reduction in April. The decline was broadly based, reflecting reductions in output for all major product groupings. The rate of capacity utilization in manufacturing fell 2 percentage points further to 79 percent, 8 percentage points below its recent high in March 1979.

Nonfarm payroll employment declined in May and fell sharply further in June. Employment decreases were concentrated in manufacturing and construction in both months, and in June the service-producing sector registered its first decline since the previous recession. The unemployment rate, however, edged down from 7.8 to 7.7 percent in June, following large increases in the preceding two months.

The Department of Commerce survey of business spending plans taken in late April and May indicated that expenditures for plant and equipment would be about 10 percent higher in 1980 than in 1979. The survey also suggested, however, little real growth in such expenditures over the year after allowance for expected increases in prices.

Private housing starts fell considerably further in May to an annual rate of 920,000 units, one of the lowest monthly rates in the postwar period, while residential building permits edged up. There were some indications of improvement in new-home sales in May.

The rise in producer prices of finished goods and of materials moderated substantially in the second quarter following exceptionally rapid advances in other recent quarters. The rate of increase in consumer prices slowed appreciably in April and May from the accelerated pace in the first quarter. The recent moderation in both producer and consumer prices was due largely to a lessening of the rapid rise in prices of energy-related items. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of about 9½ percent over the first half of 1980, compared with an increase of 8½ percent during 1979.

In foreign exchange markets the downward pressure on the dollar that had developed in early April abated in mid-June but reemerged in early July. The renewed pressure apparently reflected concern about the possibility of further declines in U.S. interest rates. The trade-weighted value of the dollar against major foreign currencies, which had fallen about 3½ percent since the Committee's meeting on May 20 and about 11 percent since early April, was close to its level in early 1980.

The U.S. foreign trade deficit for April and May was well below the average for the first quarter, reflecting a reduction in both oil and non-oil imports. Nonagricultural exports increased slightly after exhibiting considerable strength in 1979 and in the first quarter of 1980.

At its meeting on May 20, the Committee had agreed that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 at rates high enough to promote achievement of the Committee's objectives for growth over the year, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 8½ to 14 percent. Specifically, the Committee had agreed that operations should be directed toward encouraging growth of M-1A, M-1B, and M-2 over May and June at annual rates of 7 to 7½ percent, 7½ to 8 percent, and about 8 percent respectively. The Committee also had agreed that, in light of the earlier shortfall, moderately faster growth would be acceptable if that developed in response to a strengthening of the demand for money.

In pursuit of the Committee's objective of encouraging growth in the monetary aggregates, System open market operations were directed during the intermeeting period at fostering an ample availability of nonborrowed reserves, and conditions in the money market eased further. The federal funds rate declined from an average of about 10⅞ percent in the statement week ending May 14 to around 9⅜ percent in the statement week ending July 2. In recognition of the easier conditions in money markets, reductions in Federal Reserve discount rates from 13 percent to 11 percent in two equal steps were announced on May 28 and June 12.

Growth in M-1A and M-1B accelerated in June to annual rates of 13¾ percent and 16¾ percent respectively, following little change in May and sharp contraction in April. Growth in M-2 also accelerated in June to an annual rate of about 17¼ percent, up from a rate of 8¾ percent in May and a small decline in April; the faster growth in M-2 partly reflected rapid expansion in money market mutual funds. From the fourth quarter of 1979 to the second quarter of 1980, M-1A and M-1B grew at annual rates of about ½ and 1¾ percent respectively, considerably below the growth paths consistent with the Committee's ranges for the year ending in the fourth quarter of 1980; M-2 and M-3 grew at rates just above the lower bounds of their ranges.

Following rapid expansion in the first quarter, total credit outstanding at U.S. commercial banks contracted in June for the third consecutive month. The June decline reflected continuing weakness in loans, including business loans. However, short-term business borrowing was sustained by rapid growth in net issuance of commercial paper by nonfinancial corporations following a surge of such issuance to a record rate in May. Over the first half of 1980, total commercial bank credit grew at an annual rate of about 4½ percent, somewhat below the lower bound of the Committee's range for the year.

Market interest rates declined considerably further in late May and the first half of June but since then most rates have retraced part of the decline. On balance, private short-term rates declined 100 to 125 basis points over the intermeeting period while most long-term rates fell 10 to 50 basis points; municipal bond yields, however, rose somewhat. Over the interval, commercial banks reduced their loan rate to prime business borrowers from 16½ percent to 11½ percent. In primary markets for home mortgages, average rates on new commitments at savings and loan associations declined to about 12⅛ percent.

On May 22 the Board of Governors announced a partial phaseout of the special measures of credit restraint that had been put in place, or reinforced, on March 14. Subsequently, on July 3, the Board announced plans to complete the phaseout of the special credit restraint program. The Board noted that recent banking and other data clearly indicated that credit expansion was running at a moderate pace, and accordingly the special conditions necessitating the extraordinary credit restraint measures were no longer present.

According to staff estimates presented at this meeting, the decline in real GNP during the second quarter was larger than had been anticipated at the time of the meeting in May. The staff's projections suggested that real GNP would continue to decline in the remaining quarters of 1980, although at a progressively less rapid pace, and that the unemployment rate would increase substantially further. A modest recovery in real GNP appeared likely to begin around the turn of the year. The rise in prices, as measured by the fixed-weight index for gross domestic business product, was expected to remain rapid, but somewhat less rapid during 1981 than 1980.

Although members of the Committee differed somewhat in their appraisals of the depth of the overall decline and of the pace of the recovery, they generally agreed that the contraction in real GNP would continue well into the second half of 1980 and that a recovery in 1981 was likely to be modest compared with most earlier periods of recovery. All members believed that the rise in prices would remain rapid in 1981, although a few anticipated a somewhat more significant slowing than the staff projected; one or two members expected little if any improvement. However, it was suggested that uncertainty about the forecasts was especially great, partly because of the difficulty of evaluating the impact that persistent inflation might have on expectations and thus on various categories of expenditures.

At its meeting on February 4–5, 1980, the Committee had agreed that from the fourth quarter of 1979 to the fourth quarter of 1980 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. In establishing the ranges then, the Committee had agreed that monetary growth should slow further in 1980, following some deceleration in 1979, in line with the continuing objective of curbing inflation and providing the basis for restoration of economic stability and sustainable growth in output.

At this meeting, in accordance with the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act), the Committee reviewed the ranges for growth of the monetary and credit aggregates for the period from the fourth quarter of 1979 to the fourth quarter of 1980 that it had established at its meeting in February and gave preliminary consideration to objectives for monetary growth that might be appropriate for 1981.[1] In doing so, the Committee continued to face unusual uncertainties concerning the forces affecting monetary growth. As noted earlier, expansion of both M-1A and M-1B from the fourth quarter of 1979 to the second quarter of 1980 fell considerably below the growth paths consistent with the Committee's ranges for the year. However, growth of M-2 and M-3 was considerably stronger: over the two quarters both of these aggregates grew at rates just above the lower bounds of their ranges. By midyear, growth of M-2 was near the midpoint of its range, and it appeared to be moving higher.

The weakness in the narrower measures of money that developed in the second quarter was unusual. It raised the question of whether the demand for money in relation to income and interest rates had shifted downward once again, perhaps as a response to the unusually high level of interest rates of the preceding quarter. It was also possible that part of the second-quarter decline in money balances was a temporary phenomenon associated with the substantial repayments of short-term debt that followed the special measures of credit restraint announced on March 14. In the latter case, the public would probably make some effort to rebuild balances in the second half of the year, which would strengthen the demand for both M-1A and M-1B. In any event, in view of recent evidence of a preference for interest-bearing transactions accounts over demand deposits that was greater than anticipated, it appeared likely that M-1B would grow somewhat faster relative to M-1A than had been projected earlier in the year.

The stronger performance of the broader aggregates over the first half of the year in relation to their ranges for the year reflected rapid growth in instruments yielding market rates of interest, including shares in money market mutual funds. As short-term market interest rates declined sharply toward the end of the period, contraction in savings deposits in banks and other depository institutions slowed and then gave way to a rise. For part of the period, growth of M-3 was also promoted by issuance of large-denomination time deposits by commercial banks and thrift institutions, but the outstanding volume of such deposits began to contract in late spring as credit demands weakened.

For 1981, the prospective relationships among the various monetary aggregates were subject to even greater uncertainty because of, among other things, certain institutional changes expected to result from the Monetary Control Act of 1980. In particular, relationships among the aggregates will be affected by introduction of NOW accounts on a nationwide basis as of December 31, 1980, as authorized by that act. During 1981, shifts of funds from demand deposits to NOW accounts are likely to be substantial, and will retard the growth of M-1A. At the same time, transfers from savings deposits and other interest-bearing assets to NOW accounts will enhance the growth of M-1B. To the extent that funds are shifted into

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[1] The Board's midyear report under the act was transmitted to the Congress on July 21, 1980.

NOW accounts from other deposit components of M-2 and M-3, growth of these aggregates will be unaffected. The behavior of these aggregates, however, will also be influenced by the further development of money market mutual funds, which are included in M-2. The possibility that the apparent downward shift in the demand for narrow money will persist into next year was an additional element of uncertainty.

In the Committee's discussion, all but one member favored retention of the ranges for 1980 that had been adopted at the meeting in February. The likely shift in relative growth of M-1A and M-1B was not considered large enough to justify "fine-tuning" the growth ranges at the expense of causing public confusion about the meaning of the adjustments. One member advocated a reduction in the ranges for both M-1A and M-1B.

In reaffirming the existing ranges for 1980, Committee members in general recognized that growth of the narrow aggregates over the year as a whole might reasonably fall below the midpoints of their ranges and possibly near the lower bounds. On the other hand, the recent behavior of the interest-bearing nontransactions components of M-2 and M-3, along with a possible pickup in demands for transactions balances, suggested that growth of the broader aggregates over the year as a whole might rise to about the midpoints of their ranges or, in the case of M-2, well into the upper part of the range. Committee members also recognized that the sharp contraction in commercial bank credit during the second quarter raised the possibility that growth over the year would fall short of its range, even if the anticipated resumption of expansion in bank credit occurred. It was noted, however, that a substantial portion of business credit needs was being met through other sources of funds, particularly the issuance of commercial paper and the flotation of corporate bonds.

Thus the Committee decided to retain the ranges for 1980 that it had established in February: for the period from the fourth quarter of 1979 to the fourth quarter of 1980, 3½ to 6 percent for M-1A, 4 to 6½ percent for M-1B, 6 to 9 percent for M-2, and 6½ to 9½ percent for M-3. The associated range for commercial bank credit remained 6 to 9 percent. As in the past, it was understood that the longer-run ranges, as well as the particular aggregates for which ranges were specified, would be reconsidered at any time that conditions might warrant, and that short-run factors might cause considerable variation in annual rates of growth from one month to the next and from one quarter to the next.

With respect to objectives for monetary growth in 1981, most Committee members expressed strong reservations about attempting to be numerically precise at this time, owing to the unusual uncertainties about the relationships among the monetary aggregates and about their relationship to economic activity; they felt that a more general statement, consistent with the letter and intent of the law as they understood it, would be more meaningful and less confusing. The members generally wished to reaffirm the Committee's long-standing objective of moving gradually toward rates of monetary expansion consistent with general price stability. Some members emphasized a possible inconsistency between reduced monetary growth and satisfactory recovery in activity should strong price pressures persist, as assumed in the administration's forecast. A few were unwilling to assume, pending further appraisal of price and other developments in coming months, that progress could be made in 1981 toward the longer-term goal of reduced monetary growth. However, most members believed that the Committee should indicate firmly its intent to make more progress in 1981 toward its objective of reduction in monetary growth over time. One view was that the reduction in monetary growth should be stated only with respect to the narrowly defined monetary aggregates, even if it were not feasible to do so in specific quantitative terms. Another was that the objective should be stated only in terms of a small reduction in the ranges for the broader aggregates, in light of the distorted behavior of M-1A and M-1B anticipated because of the prospective growth of NOW accounts on a nationwide basis.

At the conclusion of the discussion, there was rather general agreement among members of the Committee that it would be appropriate to plan for some further progress in 1981 toward reduction in the targeted ranges, but that it would be premature at this time to set forth precise ranges for each monetary aggregate for next year, especially given the uncertainty generated by the institutional changes affecting the relationships among the aggregates. Moreover, the appropriate monetary growth in 1981 relative to 1980 would depend to some extent on actual growth this year—that is, on exactly where in the present ranges the various aggregates fall at year-end.

The Committee adopted the following ranges for rates of growth in monetary aggregates for the period from the fourth quarter of 1979 to the fourth quarter of 1980: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for bank credit is 6 to 9 percent.

> Votes for this action: Messrs. Volcker, Gramley, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, Messrs. Winn, and Balles. Vote against this action: Mr. Wallich. (Mr. Balles voted as alternate for Mr. Guffey.)

Mr. Wallich dissented from this action because he believed that the ranges for growth of M-1A and M-1B over the year ending in the fourth quarter of 1980 should be reduced by ½ percentage point. In his opinion, efforts to bring these aggregates up into the ranges adopted in February implied excessively rapid monetary growth over the months ahead.

In the Committee's discussion of policy for the short run, the members agreed that operations in the period before the next meeting should be directed toward expansion of monetary aggregates over the third quarter at rates that would promote achievement of its monetary objectives for the year. In doing so, the members recognized that a number of months might be required in the process and that, in any case, growth of the narrower aggregates over the year as a whole might well fall near the lower bounds of their ranges.

Specifically, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the third quarter of 1980 at annual rates of about 7 percent, 8 percent, and 8 percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remained within a range of 8½ to 14 percent. The Committee also agreed that in light of the shortfall in monetary growth over the first half of the year, moderately faster growth would be acceptable if it developed in response to a strengthening in the public's demand for money balances as narrowly defined. In assessing the behavior of M-1A and M-1B, it was also understood that the rate of growth in M-2 would be taken into account. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting indicates a marked contraction in real GNP in the second quarter. In May total retail sales declined substantially for the fourth consecutive month, and housing starts, industrial production, and nonfarm payroll employment continued to decline. Employment fell sharply further in June; however, the unemployment rate edged down from 7.8 to 7.7 percent, following large increases in April and May. The overall rise in prices of goods and services has moderated in recent months, in large part owing to a lessening of the rapid rise in energy items. Over the first six months of the year, the rise in the index of average hourly earnings was moderately faster than the pace recorded in 1979.
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> The downward pressure on the dollar in exchange markets that emerged in early April abated in mid-June, and then was resumed in early July. The average U.S. foreign trade deficit for April and May was well below the average for the first quarter, reflecting reduced oil and non-oil imports.
>
> Monetary expansion was rapid in June, following weakness earlier in the spring. Over the first half of the year growth of M-1A and M-1B fell short of the rates consistent with the Committee's ranges for the year from the fourth quarter of 1979 to the fourth quarter of 1980; the rate of growth for M-2 was just above the lower bound of its range. Outstanding bank loans to business declined substantially during the second quarter following a large increase in the first quarter. Market interest rates declined considerably further in late May and the first half of June, but since then most rates have retraced part of the decline. Reductions in Federal Reserve discount rates from 13 to 11 percent in equal steps were announced on May 28 and June 12.
>
> Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will resist inflationary pressures while encouraging moderate economic expansion and contributing to a sustainable pattern of international transactions. The Committee agrees that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3½ to 6 percent, 4 to 6½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit is 6 to 9 percent.
>
> In the short run, the Committee seeks expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the third quarter of 1980 at annual rates of about 7 percent, 8 percent, and 8 percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 8½ to 14 percent.
>
> If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of re-

serves, the Manager for Domestic Operations is promptly to notify the Chairman who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Volcker, Gramley, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, Winn, and Balles. Votes against this action: None. (Mr. Balles voted as alternate for Mr. Guffey.)

Subsequent to the meeting, Chairman Volcker advised the Committee that its attempt to cut through the institutional uncertainty affecting the behavior of and relationships among the various monetary aggregates and to describe the broad substance of its intent with respect to monetary growth ranges for 1981 apparently had led to some misunderstanding at the monetary oversight hearings before the Senate and House banking committees on July 22–23. In an attempt to clear up that misunderstanding, the Chairman recommended that the Committee indicate its general intent of looking toward a reduction in ranges of growth for M-1A, M-1B, and M-2 for 1981 on the order of 1/2 percentage point, abstracting from the institutional influences affecting the behavior of the aggregates. The Committee voted to approve the Chairman's recommendation. It was understood that all of the ranges would be reassessed in February 1981, or before, in accordance with usual procedures.

On July 29, 1980, the Committee agreed that for the period from the fourth quarter of 1980 to the fourth quarter of 1981, it looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of 1/2 percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates.

> Votes for this action: Messrs. Volcker, Gramley, Guffey, Partee, Rice, Roos, Schultz, Solomon, Wallich, Winn, and Eastburn. Vote against this action: Mrs. Teeters. (Mr. Eastburn voted as alternate for Mr. Morris.)

Mrs. Teeters dissented from this action because she believed that it was undesirable to specify precise numerical ranges for monetary growth in 1981 so far in advance while economic activity was still contracting. In her opinion, monetary goals for 1981 specified at this time could prove to be inconsistent with other, as yet undetermined, economic policies and with the objective of reducing inflation while encouraging a sustainable recovery in economic activity. She was especially concerned about a possible inconsistency in view of the unusually great uncertainties generated by the introduction of NOW accounts nationally and by shifts in the relationship among money, interest rates, and nominal GNP.

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $3 billion to $4 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on August 12, 1980.

> Votes for this action: Messrs. Volcker, Gramley, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, Winn, and Balles.

Votes against this action: None. (Mr. Balles voted as alternate for Mr. Guffey).

This action was taken in light of projections indicating a need for substantial reserve-absorbing operations over the coming intermeeting interval to counter the effects of significant reductions in required reserves associated with the phaseout of the special credit restraint program.

Meeting Held on August 12, 1980

Domestic Policy Directive

The information reviewed at this meeting suggested that the decline in real output of goods and services began to moderate toward the end of the second quarter. For the quarter as a whole real GNP fell at an annual rate of 9.1 percent, according to preliminary estimates of the Commerce Department. The rise in average prices, as measured by the fixed-weight price index for gross domestic business product, moderated to an annual rate of about 9½ percent in the second quarter from a rate of about 11¼ percent in the first quarter.

Following four months of substantial decreases, the dollar value of total retail sales rose considerably in both June and July. While increases in sales were fairly widespread, sharp gains in the automotive sector accounted for much of the two-month advance. Sales of new automobiles were at an annual rate of 9 million units in July, compared with a recent low of about 7¼ million in May.

Private housing starts rose substantially in June, to an annual rate of 1.2 million units from 910,000 units in May, and building permits for new units also increased markedly. The steep decline in sales of new homes during March and April was reversed in May and in June. Sales of existing homes also picked up in June, following a marked decrease over the preceding eight months.

The index of industrial production fell 2.4 percent in June, about the same as in both April and May. The decline was broadly based, reflecting reductions in output for all major product groupings. The rate of capacity utilization in manufacturing fell 2.3 percentage points further to 76.1 percent; the cumulative decline from its recent peak in March 1979 exceeded 10 percent.

Nonfarm payroll employment fell further in July but by considerably less than the average monthly decline in the second quarter. Employment decreases continued sizable in manufacturing, and the factory workweek remained at a reduced level. However, employment in the service-producing sector expanded significantly following only two months of decline. In contrast to the establishment data, employment as measured by the survey of households increased substantially in July after falling sharply earlier in the year. The civilian labor force also increased and the unemployment rate edged up from 7.7 to 7.8 percent.

The rise in both producer prices and consumer prices moderated in the second quarter following exceptionally rapid advances in the first quarter. The moderation reflected primarily a lessening of the rapid rise in prices of energy-related items. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of about 8¾ percent over the first seven months of the year, somewhat faster than in 1979.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen somewhat since late July, after fluctuating in a narrow range earlier in the month, and was about 2 percent above its level at the time of the Committee's meeting on July 9. The U.S. foreign trade deficit was reduced further in June, bringing the average for the second quarter well below that for the first. A decline in both oil and non-oil imports accounted for the improvement as exports were about unchanged.

At its meeting on July 9, the Committee had agreed that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the three months from June to September at annual rates of about 7 percent, 8 percent, and 8 percent respectively, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 8½ to 14 percent. The Committee also had agreed that, in light of the shortfall in monetary growth over the first half of the year, moderately faster growth would be acceptable if that developed in response to a strengthening in the public's demand for money balances as narrowly defined; in assessing the behavior of M-1A and M-1B, the rate of growth in M-2 would be taken into account.

Early in the intermeeting period, the monetary aggregates appeared to be growing at rates slightly above those that had been specified for the period from June to September. In accordance with the Committee's objectives, System open market operations were directed toward providing the reserves consistent with that monetary growth. Later in the period, however, both M-1B and M-2 appeared to be growing considerably faster than their specified rates, and System operations were not directed toward accommodating this additional growth. As the demand for reserves expanded in association with the growth of deposits, excess reserves appeared to increase to exceptional levels, and conditions in the money market firmed. Member bank borrowing expanded temporarily, and the federal funds rate, after having fallen from an average of about 9⅝ percent in the statement week ending July 2 to about 8¾ percent in the week ending July 23, rose to an average of slightly more than 9½ percent in the week ending August 6.

Growth of M-1A and M-1B moderated in July to annual rates of about 7½ and 10¾ percent respectively from rates of about 11½ and 15 percent in June. In July, M-2 grew at an annual rate of 17 percent, only slightly below the exceptional rate recorded in the previous month; money market mutual funds, overnight repurchase agreements, and savings deposits continued to expand rapidly. As a result of the June-July resurgence, growth of M-1A over the period from the fourth quarter of 1979 to July was much closer to, but still somewhat below, the rate consistent with the lower limit of the Committee's range for the year ending in the fourth quarter of 1980; growth of M-1B was at about the lower limit of its range for the year, but growth of M-2 was at about the upper bound of its range.

Total credit outstanding at U.S. commercial banks apparently expanded in July after three months of decline. The July rise reflected a sharp increase in bank holdings of securities and a cessation of declines in loan portfolios: business loans increased marginally and real estate loans rose moderately while consumer loans were estimated to have fallen further. Net issues of commercial paper by nonfinancial corporations moderated substantially in July from an exceptionally strong pace in other recent months.

Market interest rates rose considerably further over the intermeeting period. Markets were called upon to absorb large amounts of Treasury and corporate securities, and market participants reacted to prospects for tax reductions and enlarged government deficits, to more rapid monetary growth, and to indications of some improvement in the economic outlook. Over the interval, short-term rates increased about 50 basis points and long-term rates about 75 basis points. In primary markets for home mortgages average rates on new commitments at savings and loan associations rose slightly, to 12¼ percent. Over this period, however, commercial banks reduced their loan rate to prime business borrowers from 11½ to 11 percent. On July 25 the Board of Governors announced a reduction in Federal Reserve Bank discount rates from 11 to 10 percent to bring the discount rate into closer alignment with the level of short-term market interest rates and bank lending rates.

The staff projections prepared for this meeting, like those of early July, suggested that real GNP would decline at a progressively less rapid pace in the third and fourth quarters of the year, and the contraction was now anticipated to be less pronounced than had appeared likely a month earlier. A modest recovery in real GNP was expected to begin around the turn of the year. Nevertheless, the rise in the unemployment rate over the months ahead was still projected to be substantial. The projections of price changes were essentially the same as a month ago: the rise in the fixed-weight index for gross domestic business product was anticipated to remain rapid, although somewhat less rapid during 1981 than 1980.

Members of the Committee agreed in general that further declines in economic activity would be more moderate than had appeared probable a month earlier and that a modest recovery was likely to begin before or around the turn of the year. However, a few members emphasized that the evidence supporting such a judgment was quite limited and that the recession still could prove to be more severe and more protracted than projected. With respect to inflation, a number of members felt that prospects had deteriorated and that little if any reduction in the rate of increase in prices was to be expected.

At its meeting in July, the Committee reaffirmed the ranges for monetary growth in 1980 that it had established in February. Thus, the Committee agreed that from the fourth quarter of 1979 to the fourth quarter of 1980 average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. It was understood that the longer-run ranges would be reconsidered as conditions might warrant.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis suggesting that over the two months of August and September growth of M-1B was likely to moderate in relation to growth of M-1A, as the recent rise in market interest rates contributed to a slowing of growth in ATS balances from the extraordinarily rapid rates of recent months. (Such balances tend to include varying amounts of ordinary passbook savings.) It was also anticipated that growth of M-2 would slow relative to that of M-1B, as expansion of money market mutual funds moderated further in reponse to a reduction in the attractiveness of their yields relative to yields on competing investments. Nevertheless, the apparent shifts in the public's preferences for different types of assets suggested that if M-1A grew from June to September at or even somewhat less than the annual rate of 7 percent that had been specified at the meeting in early July, growth of M-1B and, still more so, growth of M-2 would exceed the annual rate of 8 percent that had been specified for both aggregrates.

The staff analysis also suggested that extrapolation of growth in M-1A at an annual rate of 7 percent in the final three months of the year would result in growth from the fourth quarter of 1979 to the fourth quarter of 1980 at a rate slightly above the lower bound of the Committee's range for that period. If the relationships of the third quarter persisted, growth of M-1B over the year would be near the midpoint of its range; growth of M-2 would be at about the upper bound and that of M-3 near the midpoint of their ranges.

In the Committee's discussion of policy, several members stressed the unusual uncertainties about both the relative rates of growth in the monetary aggregates in this period and the relationships between growth of the aggregates and the course of economic activity. In the light of the special factors accounting for the larger differentials than had been anticipated earlier, many members were satisfied to retain for the period from June to September the 7 percent annual rate for growth of M-1A that had been specified a month earlier and to accept the higher rates of growth in M-1B and M-2 that now appeared to be associated with that rate for M-1A. In general, they felt that any appreciable lowering of the June–September rate for M-1A would require a reduced provision of nonborrowed reserves, provoking a rise in member bank borrowings and further increases in interest rates in the near term, although the Committee's longer-run targets did not at this time clearly suggest the need for reduced growth of the monetary aggregates. In that view, prospects for economic activity did not appear to support leaning toward lower growth in the aggregates at this time. The observation was made that inflation was still a major problem but that monetary policy evidently was already exerting some restraint. It was also noted that if in the period ahead monetary growth appeared to be significantly stronger than anticipated, the Committee's operating procedures were likely to result in increases in member bank borrowings and thus in the federal funds rate and other short-term rates; in those circumstances, increases in interest rates would be seen more clearly as a consequence of the need to avoid excessive monetary growth.

A few members preferred to reduce somewhat the specified rate for growth of M-1A over the period from June to September and to specify a rate for growth of M-1B that was closer to or the same as the rate that had been specified a month earlier. It was suggested that it would be appropriate at this time to take steps to provide greater assurance that growth of the aggregates would be moderate over the remainder of the year, in view of the rapid growth recently and the resulting progress in overcoming the April–May shortfall. The indications of some improvement in the outlook for economic activity recently, combined with the perceived deterioration in prospects for inflation, seemed consistent with a slightly lower rate of reserve provision. The opinion was also expressed that, at least for the present, M-1B was the most reliable of the monetary aggregates as a guide to policy.

It was generally expected that with any of the approaches to the aggregates under discussion, the federal funds rate on a weekly average basis would remain well within the range of 8½ to 14 percent that had been specified at the meeting in early July, although in the statement week ending July 23 it had fallen as low as 8¾ percent. There were proposals to make a slight reduction in the lower limit, in the upper limit, or in both limits, as well as to retain the range of 8½ to 14 percent.

At the conclusion of the discussion, the Committee agreed to specify a slightly lower rate of growth for M-1A over the third quarter and higher rates for M-1B and M-2 than the rates specified a month earlier. Specifically, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the period from June to September at annual rates of about 6½ percent, 9 percent, and 12 percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remained within a range of 8 to 14 percent. Member bank borrowings were not expected to increase appreciably from the recent, near-frictional levels unless the monetary aggregates grew more rapidly than the specified rates. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that the decline in economic activity, which was marked in the second quarter as a whole, has been moderating. While industrial production and nonfarm payroll employment continued to decline sharply in June, total retail

sales advanced after four months of substantial decreases, and housing starts rose from a depressed level. In July retail sales advanced further; nonfarm payroll employment declined, but not so sharply as during the second quarter, and the unemployment rate edged up from 7.7 to 7.8 percent. The overall rise in prices of goods and services moderated in the second quarter, in large part owing to a lessening of the rapid rise in energy items. Over the first seven months of the year, the rise in the index of average hourly earnings was somewhat faster than the pace recorded in 1979.

The weighted average value of the dollar in exchange markets has risen somewhat since late July, after having fluctuated in a narrow range earlier in the month. A reduced U.S. foreign trade deficit in June brought the average for the second quarter well below the average for the first quarter.

Monetary expansion remained rapid in July, although not so rapid as in June. The recent resurgence brought growth of M-1A closer to and that of M-1B about to the lower bounds of the Committee's ranges for the year from the fourth quarter of 1979 to the fourth quarter of 1980. However, the rate of growth for M-2 was near the upper bound of its range. Market interest rates have risen considerably further in recent weeks.

Taking account of past and prospective economic developments, the Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3½ to 6 percent, 4 to 6½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the third quarter of 1980 at annual rates of about 6½ percent, 9 percent, and 12 percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 8 to 14 percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Gramley, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, Winn, and Balles. Votes against this action: None. (Mr. Balles voted as alternate for Mr. Guffey.)

Meeting Held on September 16, 1980

Domestic Policy Directive

The information reviewed at this meeting suggested that the decline in real output of goods and services had moderated in the third quarter, following a contraction at an annual rate of 9.0 percent in the second quarter, and some recent data indicated that the decline might have ended, at least temporarily. Average prices, as measured by the fixed-weight price index for gross domestic business product, were continuing to rise at a rapid pace, which was, however, slightly below the annual rate of increase of about 10½ percent indicated for the second quarter.

The dollar value of total retail sales rose considerably further in

August, according to the advance report, after increasing sharply in June and July. Sales of new automobiles were at an annual rate of 8.6 million units, down from 9.0 million in July but appreciably above the second-quarter rate.

The index of industrial production rose an estimated 0.5 percent in August, following a cumulative decline of about 8.5 percent over the preceding six months. The August increase was fairly widespread among industry groupings, with notable gains in output of construction supplies and consumer home goods.

Nonfarm payroll employment expanded in August after several months of decline, and the unemployment rate edged down from 7.8 to 7.6 percent. Employment in manufacturing, which accounted for about half of the August increase, registered its first monthly gain since December 1979, and the length of the average workweek rose substantially.

The Department of Commerce survey of business spending plans taken in July and August indicated that current-dollar expenditures for plant and equipment would be about 8¾ percent higher in 1980 than in 1979. In view of the expenditures in the first half of 1980, the indicated increase for the year as a whole implied a marked decline in real outlays for the second half. New orders for nondefense capital goods and contracts for business construction strengthened in June and July but were still well below their levels early in the year.

Private housing starts edged up in July to an annual rate of about 1.3 million units, following a substantial rebound in June from the depressed levels of earlier months; building permits for new units rose markedly. Sales of new houses increased for the third successive month, bringing the number of unsold units to its lowest level in more than four years. Sales of existing homes, which had picked up in June after eight consecutive months of decline, rose substantially further in July.

Producer prices of finished goods rose rapidly in July and August, after increasing at a sharply reduced pace during the second quarter; the recent advances reflected mainly a surge in food prices. At the consumer level, increases in prices of food and many commodities accelerated in July, but a sharp decline in measured costs of homeownership held the overall consumer price index to its month-earlier level. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of about 8¾ percent over the first eight months of the year, somewhat faster than in 1979, but the rate of increase in July and August was more moderate than that earlier in the year.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had declined somewhat over the interval since the Committee's meeting on August 12. The U.S. foreign trade deficit was reduced further in July to a level significantly lower than the average for the second quarter. A sharp decline in petroleum imports accounted for most of the change as exports and non-oil imports were about unchanged.

At its meeting on August 12, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 from June to

September at annual rates of about 6½ percent, 9 percent, and 12 percent respectively, provided that in the intermeeting period the weekly average federal funds rate remained within a range of 8 to 14 percent. Early in the intermeeting interval, incoming data indicated that growth of M-1A and M-1B would probably exceed the Committee's third-quarter objectives, as well as earlier projections, by a wide margin, and growth of M-2 was also expected to be relatively rapid. Required reserves, and thus member bank demands for reserves, rose substantially in relation to the supply being made available through open market operations. As a consequence, member bank borrowings for reserve-adjustment purposes moved up sharply from a weekly average of about $110 million at the time of the August meeting to an average of about $825 million in the two latest statement weeks. The pressures on bank reserve positions were also associated with increases in the federal funds rate from the 8½ to 9 percent area at the time of the August meeting to around 10½ to 11 percent in recent days.

Growth of M-1A and M-1B accelerated in August to record annual rates of about 19½ percent and 22 percent respectively from rates of about 7¾ percent and 11 percent in July. Expansion in M-2 remained rapid in August at an annual rate of about 14¼ percent but was down from growth rates averaging 18 percent in June and July. For the period from the fourth quarter of 1979 through August, growth of M-1A was in the lower half of the Committee's range for the year ending with the fourth quarter of 1980; growth of M-1B was in the upper half of its range, while growth of M-2 was somewhat above the upper limit of its range.

Total credit outstanding at U.S. commercial banks picked up in July and expanded substantially further in August, following a decline in the second quarter. Bank holdings of securities grew rapidly in both months, and total loans increased substantially in August, after changing little in July. Loans to businesses exhibited renewed strength in August, and real estate lending expanded moderately. A sharp decline in net issues of commercial paper by nonfinancial corporations partly offset the growth in business loans.

Market interest rates fluctuated widely but rose on balance over the intermeeting interval. Upward pressures on rates reflected market response to the exceptionally rapid growth in money and the associated impact on bank reserve positions, to further indications of improvement in real economic activity, to the disappointing performance of measures of inflation, and to concerns about prospective budgetary deficits. On balance, short-term rates increased about 1½ to 2 percentage points over the intermeeting period and long-term rates rose about ¼ to ¾ percentage point. Commercial banks raised their loan rate to prime business borrowers from 11 percent to 12¼ percent. In primary markets for home mortgages, rates on new commitments at savings and loan associations averaged a little over 13 percent compared with 12¼ percent at the time of the August meeting.

The staff projections presented at this meeting suggested that the decline in real GNP would be much less pronounced in the third quarter than had appeared likely a month earlier: a modest recovery in real GNP was expected to begin by year-end and to continue in 1981. The unemployment rate was projected to increase somewhat more gradually over the months ahead than had been anticipated earlier. While the projections suggested slightly larger price increases, the staff continued to expect that the rise in the fixed-weight index for gross domestic business product would be somewhat less rapid in 1981 than in 1980.

The Committee's discussion of the economic outlook indicated a broadly shared judgment that a recovery in economic activity was under way, and some members believed that the economy was likely to be somewhat stronger in the fourth quarter than the staff was projecting. Other members were less sanguine about the near-term outlook, and some expressed the view that a renewed downturn could not be ruled out. With regard to the outlook for 1981, the members were in broad agreement with the staff projection of a modest recovery. Concern was expressed that, despite the competitive pressures in many industries and relatively high levels of unemployment, a substantial rise in wages and prices remained in prospect for the year ahead. Under such circumstances several members noted a potential dilemma between the need for sustained recovery and the need for significant progress toward bringing inflation under control.

At its meeting in July, the Committee had reaffirmed the ranges for monetary growth in 1980 that it had established in February. Thus, the Committee agreed that from the fourth quarter of 1979 to the fourth quarter of 1980, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. It was understood that the longer-run ranges would be reconsidered as conditions warranted.

In contemplating policy for the period immediately ahead, the Committee took note of a staff analysis indicating that growth of M-1A and M-1B was running well above, and growth of M-2 moderately above, the objectives established by the Committee for the June-to-September period. Given the recent behavior of money, achievement of the Committee's monetary growth objectives for the year would require a marked slowing in growth over the balance of the year and the staff projection suggested that such a slowing was likely in September.

In the Committee's discussion of policy, all of the members favored operations over the period ahead directed toward the deceleration in monetary growth needed to promote achievement of the Committee's objectives for the year. The members recognized that achievement of the growth objectives for M-1A and M-1B might be associated with expansion in M-2 at a rate slightly in excess of the Committee's 1980 range for that broader measure of money, given the shifts that had occurred in the public's preferences for deposits of various types. The members also recognized that, in light of the rapid expansion in NOW and ATS accounts, growth in M-1B for the year was likely to be higher relative to growth in M-1A than was implied by the ranges set for each of these monetary aggregates at the start of the year.

While there was general agreement that monetary expansion should be reduced substantially from the recent pace, differing views emerged concerning the specific growth objectives that should be established for the August-to-December period. Some members favored growth-rate objectives on the low side of the ranges that were considered at this meeting in order to provide greater assurance that the Committee would achieve its objectives for the year as a whole. Members supporting this view emphasized the need for a policy posture that would minimize any risk of exacerbating inflationary forces in the economy or worsening inflationary expectations. Other members believed that, in light of present economic and financial market conditions, growth in the August-to-December period might reasonably be a bit higher, consistent with growth for the year in the upper part of the range established for M-1B and around the midpoint of the range set for M-1A; this approach was also viewed as consistent with broad, longer-run policy objectives. In this connection it was observed that interest rates had already risen appreciably from their recent lows, that these increases might well begin to reduce money and credit demands over the months ahead, that economic recovery was in its very early stages, and that some sectors such as housing were especially sensitive to emerging credit conditions.

Still other members proposed a middle course—a policy approach that was adopted. It was generally recognized that differences in approach were relatively minor: All of the members favored a policy that would greatly reduce growth in the aggregates over the balance of the year. In the discussion, it was observed that the reserve path to achieve restraint in money growth would probably not involve an immediate change in money market conditions, assuming that money growth did slow sharply in September. Differences for the most part turned on the degree of pressure on bank reserve positions that could emerge should money demand begin to exceed the money supply path.

At the conclusion of the discussion the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the August-to-December period at annual rates of about 4 percent, 6½ percent, and 8½ percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remained within a range of 8 to 14 percent. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that the decline in economic activity has moderated in the third quarter following a sharp contraction in the second quarter. Industrial production and nonfarm payroll employment expanded in August after several months of decline; the unemployment rate edged down from 7.8 to 7.6 percent; and total retail sales advanced considerably further. In July housing starts rose slightly, following a substantial rebound in June, and were well above the depressed levels of the preceding three months. Producer prices of finished goods rose rapidly in July and August, after increasing at a sharply reduced pace in the second quarter; the recent advance reflected mainly a surge in food prices. Over the first eight months of the year, the rise in the index of average hourly earnings was somewhat faster than the pace recorded in 1979.

The weighted average value of the dollar in exchange markets has declined somewhat over the past five weeks. The U.S. trade deficit in July was significantly lower than the monthly average in the second quarter, reflecting a sharp decline in petroleum imports.

M-1A and M-1B grew at record rates in August, while growth in M-2 moderated from an exceptionally rapid pace in June and July. For the year through August growth of M-1A was in the lower half and growth of M-1B in the upper half of their respective ranges set by the Committee for the year from the fourth quarter of 1979 to the fourth quarter of 1980, while growth in M-2 was somewhat above the upper limit of its range. Market interest rates have fluctuated widely since mid-August and on balance short-term rates have risen considerably while long-term rates have increased moderately.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3$^1/_2$ to 6 percent, 4 to 6$^1/_2$ percent, 6 to 9 percent, and 6$^1/_2$ to 9$^1/_2$ percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of $^1/_2$ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.

In the short run, the Committee seeks expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the August-to-December period at annual rates of about 4 percent, 6$^1/_2$ percent, and 8$^1/_2$ percent respectively, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 8 to 14 percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Volcker, Gramley, Morris, Partee, Rice, Schultz, Solomon, and Mrs. Teeters. Votes against this action: Messrs. Guffey, Roos, Wallich, and Winn.
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> Messrs. Guffey, Roos, Wallich, and Winn dissented because they believed that, given the excessive monetary expansion in recent months and the outlook for inflation, the directive adopted at this meeting incurred too much of a risk that the Committee's objectives for monetary growth in 1980 would be exceeded. To enhance the prospects for restraining monetary growth to rates consistent with the longer-run ranges, they favored specifying lower rates of growth for M-1A, M-1B, and M-2 over the Au-

gust-to-December period than those that were adopted.

Meeting Held on October 21, 1980

1. Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity had expanded in the third quarter. According to preliminary estimates of the Commerce Department, real GNP increased at an annual rate of 1 percent in the quarter, following a contraction at an annual rate of about 9½ percent in the second quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, continued to rise at the annual rate of about 10½ percent recorded in the second quarter.

The dollar value of total retail sales rose in September for the fourth consecutive month. Sales at food stores and gas service stations rose sharply, while combined sales at general merchandise, apparel, and furniture and appliance stores were unchanged, following large increases in July and August. Sales of new automobiles changed little in September, but for the third quarter as a whole they were up substantially from the depressed rate in the second quarter.

Private housing starts rose considerably further in September, to an annual rate of more than 1.5 million units. Most of the increase was in multifamily units and apparently reflected a bulge in starts associated with federal subsidies at the end of the fiscal year. In August, sales of new houses declined somewhat, after rising markedly over the previous three months, but the stock of unsold units fell further to its lowest level in more than four years. Sales of existing homes, which had accelerated in July, rose somewhat further in August.

The index of industrial production rose an estimated 1 percent in September; the index had increased 0.6 percent in August after declining somewhat more than 8 percent over the previous six months. The increase in September, like that in August, was broadly based and included notable gains in output of materials, construction supplies, and consumer home goods. The rate of capacity utilization in manufacturing increased nearly 1 percentage point during August and September, following a cumulative decline of more than 12 percentage points from the peak in March 1979.

Nonfarm payroll employment expanded in September for the second consecutive month, and the unemployment rate edged down from 7.6 to 7.5 percent. Employment gains were especially strong in trade and service industries. Employment in manufacturing rose further, and the length of the average workweek edged up to a level one-half hour above its July trough.

Producer prices of finished goods declined slightly in September, but they rose substantially on the average during the third quarter as a whole. At the consumer level, increases in food prices accelerated sharply in August, but prices of energy items continued to rise at a greatly reduced pace and homeownership costs declined somewhat further; excluding those categories, consumer prices increased at about the 8 percent pace that had prevailed since April. The rise in the index of average hourly earnings of private nonfarm production workers moderated in the third quarter, but the increase over the first nine months of the year was at an annual rate of 8½ percent, about the same as in 1979.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen somewhat on balance over the interval since the Committee's meeting in mid-September. The U.S. foreign trade deficit in August remained at a level well below the monthly average in the second quarter. The volume and value of oil imports fell sharply in the July-August period, while the value of other imports was about unchanged and the value of exports increased.

At its meeting on September 16, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the period from August to December at annual rates of about 4 percent, 6½ percent, and 8½ percent respectively, provided that in the period until the next regular meeting the weekly average federal funds rate remained within a range of 8 to 14 percent. Early in the intermeeting period, incoming data indicated that the monetary aggregates, particularly M-1A and M-1B, were growing faster than the rates consistent with the Committee's objectives for the August-to-December period. Required reserves and member bank demands for reserves expanded substantially in relation to the supply of reserves being made available through open market operations. Consequently, member bank borrowings for reserve-adjustment purposes increased sharply, to an average of $1.4 billion in the four statement weeks ending on October 15 from an average of about $835 million in the preceding four weeks. These developments were associated with additional upward pressures on the federal funds rate and other short-term interest rates. Those pressures were intensified by an increase in Federal Reserve discount rates from 10 to 11 percent announced on September 25. In the days preceding this meeting, the funds rate was in the area of 12½ to 13 percent, compared with 10½ to 11 percent in the days just before the Committee's meeting on September 16.

In September, M-1A and M-1B grew at annual rates of 12¼ and 15¼ percent respectively, down markedly from the record rates set in August but still far above the rates consistent with the Committee's objectives for the period from August to December. Expansion in M-2 moderated further in September, to an annual rate of about 8¼ percent, reflecting in part a further slowing in the growth of nontransaction accounts included in that measure of money. However, M-3 grew more rapidly than M-2 for the first time since the spring, as both banks and thrift institutions stepped up their issuance of large-denomination certificates of deposit and other managed liabilities. For the period from the fourth quarter of 1979 through September, growth of M-1A was just above the midpoint of the Committee's range for the year ending in the fourth quarter of 1980; M-1B and M-2 grew at rates somewhat above the upper limits of their respective ranges, and growth of M-3 was near the upper limit of its range.

Expansion in total credit outstanding at U.S. commercial banks was relatively rapid in September, although somewhat below the August pace. Bank acquisitions of securities moderated in September from the brisk pace in the previous two months; but growth in total loans, including business loans, accelerated, following a substantial increase in August. Net issuance of commercial paper by nonfinancial corporations declined further in September.

Short-term market interest rates rose $^5/_8$ to $1^1/_2$ percentage points further over the intermeeting period, while long-term rates changed little on balance. Over the interval, commercial banks increased their loan rate to prime business borrowers from $12^1/_4$ to 14 percent. In primary markets for home mortgages, average rates on new commitments for conventional loans at savings and loan associations rose to about $13^3/_4$ percent from a little over 13 percent at the time of the September meeting.

The staff projections presented at this meeting suggested that the rise in real GNP in the third quarter marked the beginning of a recovery, but a sluggish one that was likely to be associated with some further increase in the rate of unemployment over the next few quarters. The projections continued to suggest that the rise in the fixed-weight price index for gross domestic business product would be somewhat less rapid in 1981 than in 1980.

During the Committee's discussion of the economic situation, the members agreed that recovery in economic activity had begun, and several suggested that growth in real GNP could well be greater in the current quarter than that incorporated in the staff projections and greater than that in the third quarter. However, prospects for 1981 were viewed with much more uncertainty, and considerable skepticism was expressed about the degree of confidence with which consumer and business behavior could be forecast in the current environment.

Major sources of uncertainty as well as of concern with regard to the business outlook were the continued rapid pace of inflation and the substantial rebound of interest rates so soon after the turnaround in economic activity. In these circumstances, the outlook for consumer spending was very clouded. It was suggested, for example, that continued expansion in consumption expenditures and a further decline in the already low personal saving rate might tend to sustain the recovery in activity for a time, as consumers attempted to maintain their standards of living or even to anticipate additional increases in prices. Alternatively, consumer spending might be constrained by the low saving rate, by increases in prices of foods and other necessities, and by rising interest rates. Similarly, concern was expressed that the rise in interest rates, aggravated by the prospect of sizable budget deficits, would have significantly adverse consequences for residential construction and business investment; but it was also suggested that in the current inflationary environment the higher levels of interest rates might have considerably less inhibiting effects than they would have had in the past.

At its meeting in July, the Committee had reaffirmed the ranges for monetary growth in 1980 that it had established in February. Thus, the Committee had agreed that from the fourth quarter of 1979 to the fourth quarter of 1980, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. It was understood that the longer-run ranges would be reconsidered as conditions warranted.

In contemplating policy for the period immediately ahead, the Committee noted that growth of the narrower monetary aggregates in September had substantially exceeded the rates consistent with the growth objectives for the period from August to December adopted at the meeting on September 16. Those objectives in turn had been consistent with growth for M-1A just below the midpoint of the Committee's range for the year from the fourth quarter of 1979 to the fourth quarter of 1980 and with growth for M-1B just below the upper bound of its range. The members had recognized that, owing to shifts in the public's preferences for deposits of various types, growth of M-2 over the year might slightly exceed its range.

According to a staff analysis, expansion in the public's demands for money might be expected to slow substantially in the final three months of the year even with some further pickup in growth of nominal GNP, because of the substantial accumulation of cash balances in the third quarter and the large increase in short-term interest rates since midyear. The analysis also emphasized that the differential between growth of M-1A and M-1B would remain appreciably greater than had been anticipated when the ranges for growth of the aggregates during 1980 were first adopted in February.

In the Committee's discussion of policy for the period immediately ahead, all of the members favored pursuit of a sharp reduction in monetary expansion over the final three months of the year from the rapid pace of recent months. The uncertainty concerning projections of much slower growth in the monetary aggregates was emphasized, and it was generally recognized that further evidence that growth was proceeding faster than targeted in the short run would require greater pressure on bank reserve positions. The members differed somewhat in their views with respect to the precise growth rate targets that should be adopted for the period ahead. A number of members favored growth objectives for the final three months of the year that would arithmetically compensate for the overshoot in September and thus would be consistent with the growth rates for the period from August to December that had been adopted at the Committee's meeting in September. Most members, on the other hand, favored adoption of objectives that would contemplate slightly higher growth over the final three months of the year, given the developments in the aggregates since the last meeting, although they were willing to accept lower rates of growth should such rates emerge as a result of pressures already placed on bank reserves.

Those who favored the objectives precisely consistent with the growth rates adopted at the preceding meeting believed that such a stated objective was appropriate in the interest of reducing inflationary expectations and strengthening confidence. It was considered in this context that, while the differences discussed were small, the lower objective could better assure the maintenance of growth of M-1B, as well as that of M-1A, within its range for the year, which could be psychologically important. The point was made, moreover, that very slow monetary growth in the course of the fourth quarter could be tolerated in view of the rapid growth in the third quarter, and also that such a development would contribute toward gradual year-to-year reduction in monetary growth.

Other members, while also seeking sharply reduced growth rates of the aggregates in the months ahead, attached less significance to targets precisely consistent with the August-to-December objectives adopted a month earlier, in light of the inherent volatility of the data in the short run. Committee actions affected the money supply only with some lag, and given actions already in place and the uncertainties in the economic outlook, the possibility could not be excluded that very ambitious short-run objectives with respect to restraint could generate undesirable instability in both interest rates and the money supply over a somewhat longer period and thus be counter to the Committee's more fundamental goals. These members agreed, however, that further indications of excessive monetary growth would need to be reflected in further pressures on bank reserve positions.

During the Committee's discussion, most members agreed that the differences concerning the numerical targets for growth over the last three months of the year should be reconciled by small adjustments among the competing views, with the general understanding that some shortfall from the specified rates of monetary growth would be accepted. It was pointed out that, in light of the recent excessive rate of monetary expansion, growth of M-1B could marginally exceed the upper bound of its range for 1980 if increases over the months ahead equaled or exceeded the numerical specifications. In that connection, it was also emphasized that an inconsistency had become apparent during the course of the year between the longer-run ranges for M-1A and M-1B as a result of faster-than-expected growth of ATS and NOW accounts, which had been at the expense partly of demand deposits and partly of savings deposits or other sources of funds not included in M-1. In light of those developments during the past year, the range for growth of M-1B in 1980 presumably should have been somewhat higher than that actually adopted, while the range for M-1A should have been somewhat lower, to achieve the intended economic result. It was understood that the agreed approach would be associated with significant further pressures on bank reserve positions if growth of the monetary aggregates and the associated demands for reserves proved to be greater than anticipated. In light of the recent rise in the federal funds rate and the objective of sharply reducing monetary growth, sentiment was expressed for raising the intermeeting range for the funds rate from the range of 8 to 14 percent specified at the September meeting.

At the conclusion of the discussion the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the September-to-December period at annual rates of about $2^1/_2$ percent, 5 percent, and $7^1/_4$ percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remained within a range of 9 to 15 percent. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real GNP increased somewhat in the third quarter following the sharp contraction in the second quarter, while prices on the average continued to rise rapidly. The recovery in retail sales and housing starts that began in June continued during the third quarter. Industrial production and nonfarm payroll employment expanded in September for the second consecutive month, and the unemployment rate edged down from 7.6 to 7.5 percent. The rise in the index of average hourly earnings moderated in the third quarter, but the rise over the first nine months of the year was about as rapid as in 1979.
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> The weighted average value of the dollar in exchange markets on balance has risen somewhat over the past month. The U.S. trade deficit in August remained well below the monthly average in the second quarter.
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> M-1A and M-1B continued to grow rapidly in September, although not so rapidly as in August, while growth in M-2 moderated further. From the fourth quarter of 1979 to September, growth of M-1A was slightly above the midpoint of the range set by the Committee for growth over the year ending in the fourth quarter of 1980, while growth of M-1B and M-2 was somewhat above the upper limits of their ranges. Expansion in commercial bank credit was relatively rapid in both August and September. On balance short-term market interest rates have risen considerably further since mid-September while long-term rates have changed little; average rates on new home mortgage commitments have continued upward. An increase in Federal Reserve discount rates from 10 to 11 percent was announced on September 25.
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> The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of $3^1/_2$ to 6 percent, 4 to $6^1/_2$ percent, 6 to 9 percent, and $6^1/_2$ to $9^1/_2$ percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of $^1/_2$ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.
>
> In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the September-to-December period at annual rates of about $2^1/_2$ percent, 5 percent, and $7^1/_4$ percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds

rate remains within a range of 9 to 15 percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Partee, Rice, Schultz, Solomon, and Mrs. Teeters. Votes against this action: Messrs. Morris, Roos, Wallich, and Winn.

Messrs. Morris, Roos, Wallich, and Winn dissented from this action because, given the excessive monetary expansion in recent months, they favored specification of lower monetary growth rates for the period from September to December than those adopted at this meeting. In their view, such a policy stance was appropriate in order to enhance the prospects for restraining growth of the monetary aggregates within the Committee's ranges for the period from the fourth quarter of 1979 to the fourth quarter of 1980 and thereby contribute to restraining inflation.

2. Authorization for Domestic Open Market Operations

At this meeting the Committee voted to increase from $3 billion to $4 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on November 18, 1980.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn. Votes against this action: None.

This action was taken in light of projections indicating a need for substantial reserve-absorbing operations over the coming intermeeting interval to counter the effects of a significant reduction in required reserves. The anticipated reduction was associated with the implementation in November of new regulations on reserve requirements under provisions of the Monetary Control Act of 1980.

Meeting Held on November 18, 1980

Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP, which had increased at an annual rate of 1 percent in the third quarter following a sharp second-quarter contraction, was expanding further in the current quarter. Average prices, as measured by the fixed-weight price index for gross domestic business product, appeared to be continuing to rise at a rapid pace, close to the annual rate of 10½ percent experienced in the second and third quarters.

The index of industrial production rose an estimated 1.6 percent in October, following substantial gains in each of the two preceding months. Over the three-month period, industrial production increased 4 percent, but the index in October was still about 4 percent below its level in the first quarter of 1980. Capacity utilization in manufacturing increased about 1 percentage point further in October to 77.6 percent, but remained about 6 percentage points below the first-quarter rate.

Nonfarm payroll employment expanded substantially in October for the third consecutive month, and the unemployment rate remained at about 7½ percent. Employment gains were widespread, but were especially strong in durable goods manufacturing and construction—industries in which earlier job losses had been sizable—and the average workweek in manufacturing lengthened slightly.

The dollar value of retail sales changed little in October, according to the advance report, following a large increase over the four preceding months. Sales of new automobiles were at an annual rate of 9.0 million units in October, up from 8.8 million in September.

Private housing starts rose further in September to an annual rate of more than 1.5 million units, reflecting in part a bulge in starts of federally subsidized units at the end of the fiscal year. Sales of new houses declined in September for the second successive month, although sales of existing houses rose further. Fragmentary data for October suggested that housing activity was weakening.

Producer prices of finished goods rose substantially in October after a small decline in September. Consumer prices rose at an accelerated pace in September, reflecting not only continued sharp advances in food prices but increases in most other categories as well. The index of average hourly earnings of private nonfarm production workers rose at an annual rate of 9 percent over the first ten months of the year, compared with an increase of about 8¼ percent during 1979.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen about 3 percent over the interval since the Committee's meeting in mid-October. In September the U.S. foreign trade deficit was essentially unchanged from the August level; in the third quarter the deficit was sharply below the average of the first two quarters and was the smallest since the second quarter of 1976. The volume and value of oil imports fell sharply in the third quarter, while the value of exports—especially agricultural products—increased.

At its meeting on October 21, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with the growth of M-1A, M-1B, and M-2 over the period from September to December at annual rates of about 2½ percent, 5 percent, and 7¼ percent respectively, or somewhat less, provided that in the period until the next regular meeting the weekly average federal funds rate remained within a range of 9 to 15 percent. Early in the intermeeting period, incoming data indicated that the monetary aggregates, particularly M-1A and M-1B, were growing much faster than both the rates projected at the time of the meeting and the rates consistent with the Committee's objectives for the September-to-December period. Required reserves and member bank demands for reserves expanded substantially in relation to the constrained supply of reserves being made available through open market operations. Consequently, member bank borrowings increased sharply, to an average of $1.7 billion in the three statement weeks ending on November 12 from an average of $1.3 billion in the five weeks between the September and October meetings. These developments were associated with additional upward pressures on the federal funds rate and other short-term interest rates: in mid-November the funds rate averaged 14½ percent, compared with about 12½ percent in the days just before the Committee's meeting on October 21.

After the markets closed on November 14, the Board of Governors announced an increase in Federal Reserve discount rates from 11 to 12 percent and a surcharge of 2 percentage points on frequent borrowing of large institutions. The actions, which were effective on Monday, November 17, were taken in view of the prevailing level of short-term market interest rates and the recent rapid growth in the monetary aggregates and bank credit. On November 17, the day before this meeting, federal funds traded at an average rate of about 16¼ percent.

Growth in M-1A and M-1B moderated further in October, but the annual rates of about 9 and 11 percent respectively were substantially above those consistent with the Committee's objectives for the period from September to December. Expansion in M-2 accelerated slightly in October, to an annual rate of about 9 percent, reflecting a pickup in growth of nontransaction accounts included in that aggregate; growth in M-3 also accelerated somewhat. From the fourth quarter of 1979 through October, growth of M-1A was in the upper part of the range set by the Committee for the year ending in the fourth quarter of 1980; M-1B and M-2 grew at rates somewhat above the upper ends of their respective ranges, while M-3 grew at a rate near the upper end of its range.

Expansion in total credit outstanding at U.S. commercial banks was relatively rapid in October, although somewhat below the pace in August and September. Bank holdings of securities grew at about the same pace in October as in the previous month, while growth in total loans moderated somewhat despite continuing strength in business loans. Outstanding commercial paper of nonfinancial corporations fell by a record amount in October, extending the decline that began in August.

Short-term market interest rates rose 1¾ to 3 percentage points further over the intermeeting period, while long-term rates increased about ¾ percentage point. Over the interval, the prime rate charged by commercial banks on short-term business loans was raised from 14 to 16¼ percent. In home mortgage markets, average rates on new commitments rose about 40 basis points further over the intermeeting period, and available information suggested a slowing in new commitment activity at nonbank thrift institutions most recently.

The staff projections presented at this meeting suggested that growth in real GNP would be a little greater in the fourth quarter as a whole than in the third. However, the recovery in activity appeared to be in the process of weakening, and the projections suggested little growth in real GNP and some increase in the unemployment rate over the next few quarters. The rise in the fixed-weight price index for gross domestic business product was projected to be only a little less rapid over the year ahead than during the past year.

In the Committee discussion of the economic situation and its implications for policy, the members considered the possibility that the greater-than-anticipated strength of the recovery in recent months would be followed in early 1981 by a decline in real GNP. It was recognized that in the near term the recent rise in interest rates would be an important force restraining activity in some sectors. At the same time, the higher interest rates resulted in part from the continuing rapid pace of inflation, which remained a major source of concern and of current and prospective instability. The observation was made that, assuming monetary expansion in line with the Committee's longer-run objectives, the progress of recovery in the months ahead was likely to be limited unless inflation abated. It was also noted, however, that the rise in prices had not slowed and that once again the economy might be subjected to shocks from substantial increases in prices of both energy and foods, and perhaps from a reduction in supplies of energy as well. The outlook was clouded, moreover, by unusual uncertainty regarding prospective federal outlays, especially for national defense, by the increases in federal taxes effective at the beginning of the new year, and by the prospects for legislation next year to reduce federal taxes.

At its meeting in July, the Committee had reaffirmed the ranges for monetary growth in 1980 that it had established in February. Thus, the Committee had agreed that from the fourth quarter of 1979 to the fourth quarter of 1980, average rates of growth in the monetary aggregates within the following ranges appeared to be consistent with broad economic aims: M-1A, 3$^1/_2$ to 6 percent; M-1B, 4 to 6$^1/_2$ percent; M-2, 6 to 9 percent; and M-3, 6$^1/_2$ to 9$^1/_2$ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of $^1/_2$ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. It was understood that the longer-run ranges would be reconsidered as conditions warranted.

In contemplating policy for the period immediately ahead, the Committee noted that growth of the narrower monetary aggregates in October had substantially exceeded the rates consistent with the objectives for growth over the period from September to December adopted at the meeting on October 21. If those objectives were to be realized, M-1A would have to decline slightly over the final two months of the year and growth of M-1B would have to be very slow.

According to a staff analysis, the demand for money had been quite strong in recent months because recovery in economic activity and in nominal GNP had been much larger than anticipated. Growth of transaction balances was projected to slow significantly over the remainder of the year, in part because of the lagged effect on the demand for money of the sharp rise in interest rates over recent months and in part because of the apparent weakening of the recovery in activity.

In the Committee's discussion of policy for the period immediately ahead, the members generally favored pursuit of a sharp reduction in monetary expansion from the rapid pace of recent months. Such a slowing might already be developing for the reasons given in the staff analysis, but it was emphasized that uncertainties were great concerning the projection of a weakening in the pace of the business recovery and also about the impact of nominal GNP and current levels of interest rates on monetary growth.

In the circumstances, most members favored reaffirming essentially the objectives for monetary growth over the period from September to December that had been adopted at the meeting in mid-October, with the same proviso that somewhat less growth would be acceptable if it emerged. A number of members preferred adoption of somewhat higher growth rates over the near term, with a view to scaling down monetary growth over a slightly longer period than the six weeks remaining before the end of the year, but they also were willing to accept slower growth if it emerged. In addition, some sentiment was expressed for specification of somewhat lower rates of monetary growth.

While favoring sharply reduced growth of the monetary aggregates in the period immediately ahead, a number of members expressed concern about inadvertently contributing to the volatility of interest rates, because of the implications of such volatility for economic activity, for inflationary psychology, and for the functioning of financial markets. Specifically, a substantial reduction in the provision of nonborrowed reserves or other measures in a highly aggressive pursuit of the short-run monetary growth rates being contemplated might lead promptly to further increases in interest rates, which were probably already constraining the business recovery and slowing monetary growth. Subsequent declines in rates might be unduly large, and if monetary growth accelerated again in lagged response, inflationary expectations could well be heightened. At the same time, an aggressive response to any temporary slackening in the demand for money that developed in the period just ahead appeared inappropriate, particularly in the light of the excessive monetary growth of recent months. In either case, the result might be undesirable instability in both interest rates and monetary growth over time, which could generate uncertainty about the basic thrust of Federal Reserve policy. Reflecting these concerns, some members suggested setting the upper limit of the intermeeting range for the federal funds rate relatively close to the average rate in the latest statement week, while others suggested setting a lower limit not much below the latest week's average.

At the conclusion of the discussion, the Committee decided to specify essentially the same monetary growth rates for the period from September to December that had been adopted at the meeting in October, with a range for the federal funds rate that was somewhat narrower and was centered on about the average rate in the most recent statement week. Thus, the Committee agreed that open market operations in the period until the next meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the September-to-December period at annual rates of about 2$^1/_2$ percent, 5 percent, and 7$^3/_4$ percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remained within a range of 13 to 17 percent. While some shortfall from the specified rates of monetary growth would be accepted, it was also understood that operations would not be directed toward placing substantial additional pressures on bank reserve positions unless growth of the monetary aggregates and the associated demands for reserves proved to be significantly greater than anticipated. If it appeared during the period before the next regular meeting that the constraint on the federal funds rate was inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that real GNP is recovering further in the fourth quarter from the sharp contraction in the second quarter, while prices on the average continue to rise rapidly. In October industrial production and nonfarm payroll employment expanded substantially for the third consecutive month, and the unemployment rate remained around $7^1/_2$ percent. The value of retail sales changed little, following four months of recovery. The rise in the index of average hourly earnings over the first ten months of 1980 was somewhat more rapid than in 1979.
>
> The weighted average value of the dollar in exchange markets on balance has risen further over the past month. The U.S. trade deficit was essentially unchanged in September, and the rate in the third quarter was sharply lower than that in the first half.
>
> Growth in M-1A and M-1B moderated further in October but was still relatively rapid; growth in M-2 accelerated slightly, reflecting a pickup in expansion of its nontransactions component. From the fourth quarter of 1979 to October, growth of M-1A was in the upper part of the range set by the Committee for growth over the year ending in the fourth quarter of 1980, while growth of M-1B and M-2 was somewhat above the upper limits of their ranges. Expansion in commercial bank credit was rapid in October, although not so rapid as in August and September. Market interest rates have risen sharply in recent weeks; average rates on new home mortgage commitments have continued upward. On November 14 the Board of Governors announced an increase in Federal Reserve discount rates from 11 to 12 percent and a surcharge of 2 percentage points on frequent borrowing of large member banks from Federal Reserve Banks.
>
> The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of $3^1/_2$ to 6 percent, 4 to $6^1/_2$ percent, 6 to 9 percent, and $6^1/_2$ to $9^1/_2$ percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of $^1/_2$ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.
>
> In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the period from September to December at annual rates of about $2^1/_2$ percent, 5 percent, and $7^3/_4$ percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 13 to 17 percent.
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> If it appears during the period before

the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, and Wallich. Votes against this action: Mrs. Teeters and Mr. Winn.

Mrs. Teeters dissented from this action because she believed that it would result in additional increases in interest rates, which would intensify downward pressures on demands for housing, automobiles, and business fixed capital and thus risk a major contraction in economic activity with a substantial rise in unemployment. In her view, open market operations over the weeks immediately ahead should be directed toward maintaining the federal funds rate within a range of 11 to 15 percent.

Mr. Winn dissented from this action because he favored specification of lower rates of expansion in the monetary aggregates for the period from September to December than those adopted at this meeting. In his view, more vigorous action was appropriate in order to enhance the prospects for restraining the expansion of the monetary aggregates and establishing growth paths consistent with the monetary growth objectives for 1981 contemplated by the Committee in July 1980.

Shortly after the meeting, incoming data indicated that M-1A and M-1B were growing much faster than the rates consistent with the Committee's objectives for the period from September to December. Required reserves and member bank demands for reserves had expanded substantially in relation to the supply of reserves being made available through open market operations, and member bank borrowings had increased further. These developments were associated with additional upward pressure on the federal funds rate, which in the first statement week after the meeting had been at about or somewhat above the upper limit of the range of 13 to 17 percent specified by the Committee. In a telephone conference on November 26, the Committee raised the upper limit of the intermeeting range for the funds rate to 18 percent.

On November 26, the Committee modified the domestic policy directive adopted at its meeting on November 18, 1980, to raise the upper limit of the range for the federal funds rate to 18 percent.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Schultz, Solomon, Wallich, and Baughman. Vote against this action: Mrs. Teeters. Absent: Messrs. Roos and Winn. (Mr. Baughman voted as alternate for Mr. Roos.)

Mrs. Teeters dissented from this action for essentially the same reasons that she had dissented from the action to adopt the domestic policy directive at the Committee's meeting on November 18, 1980.

On December 4, after closing of the markets, the Board of Governors announced an increase in Federal Reserve discount rates. In light of the current level of market interest rates and consistent with existing policy to restrain excessive growth in money and credit, the Board approved an increase from 12 to 13 percent in the basic rate and an increase from 2 to 3 percentage points in the surcharge on frequent borrowings of large institutions, effective December 5.

The increase in discount rates exerted additional upward pressure on the federal funds rate. In trading during the morning of December 5, the rate generally was well above 18 percent, the level to which the upper limit of the intermeeting range for the weekly average funds rate had been raised about a week earlier, and other short-term interest rates rose substantially as well. At the same time, incoming data suggested that M-1A and M-1B currently might be growing a little less rapidly than projected a week earlier, which would imply a somewhat lower level of required reserves and also some reduction in member bank demands for reserves in relation to the supply being made available through open market operations.

Thus, it was possible that the additional upward pressure on the federal funds rate would prove to be transitory. Alternatively, pursuit of the Committee's short-run objective for the growth of reserves might be associated with a federal funds rate above the upper limit of the existing range, even if some weakness in demands for reserves developed, but the extent of any upward pressure on the rate was difficult to gauge while markets were in the process of adjusting to the discount rate action. In light of these uncertainties, the Committee decided in a telephone conference in the afternoon of December 5 to take account of the repercussions of the increases in discount rates by providing the Manager for Domestic Operations with leeway to pursue the Committee's short-run objectives for the behavior of reserve aggregates without operations being precisely constrained in the current statement week by the 18 percent upper limit of the intermeeting range for the federal funds rate, pending another consultation in about a week if one appeared to be desirable.

On December 5, the Committee modified the domestic policy directive adopted at its meeting on November 18, 1980, and subsequently modified on November 26, to take account of the action of the Board of Governors on December 4 to raise discount rates by providing leeway for pursuit of the Committee's short-run objectives for the behavior of reserve aggregates without operations being precisely constrained in the current statement week by the 18 percent upper limit of the intermeeting range for the federal funds rate.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Solomon, and Winn. Votes against this action: Mrs. Teeters and Mr. Wallich. Absent: Mr. Schultz.

Mrs. Teeters dissented from this action for essentially the same reasons that she had dissented from the action to adopt the domestic policy directive at the Committee's meeting on November 18, 1980.

Mr. Wallich dissented from this action because he preferred to raise the upper limit of the federal funds rate range for the remainder of the intermeeting period, which in his view would be consistent with the action on the preceding day to raise Federal Reserve discount rates.

The Committee held another telephone conference in the afternoon of Friday, December 12. In the statement week ending December 10, the federal funds rate had averaged about 18¾ percent, and since then the rate had been in a range of 19 to 20 percent. At the same time, the most recent data tended to support the indications of the week before that M-1A and M-1B currently might be growing a little less rapidly than projected earlier and that the demand for reserves could be easing. Market conditions were unsettled, however, and there was considerable uncertainty about the relationship between money market conditions and objectives for the behavior of reserves. In these circumstances, the Committee decided to extend through the period before the next regular meeting, scheduled for December 19, the leeway for open market operations that it had voted to approve on December 5.

On December 12, the Committee modified the domestic policy directive issued on November 18, 1980, and subsequently modified on November 26 and December 5, to extend through the period before the next regular meeting leeway for pursuit of the Committee's short-run objectives for the behavior of reserve aggregates without operations being precisely constrained by the 18 percent upper limit of the intermeeting range for the federal funds rate.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, and Winn. Vote against this action: Mrs. Teeters. Absent: Mr. Wallich.

Mrs. Teeters dissented from this action for essentially the same reasons that she had dissented from the action to adopt the domestic policy directive at the Committee's meeting on November 18, 1980.

Meeting Held
on December 18–19, 1980

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real GNP expanded more in the fourth quarter than in the third. Average prices as measured by the fixed-weight price index for gross domestic business product were continuing to rise at a rapid pace, close to the average annual rate of about 10½ percent recorded in the first three quarters of the year.

The dollar value of retail sales rose substantially further in November, according to the advance report, after a large increase over the five preceding months. Sales of new automobiles were at an annual rate of 9.1 million units in November, marginally above the October rate. A brisk selling pace of foreign cars sustained total unit sales as sales of domestic autos edged down.

The index of industrial production rose an estimated 1.4 percent in November, following substantial gains in each of the three preceding months. Capacity utilization in manufacturing increased about 1 percentage point further in November to 78.8 percent, 3.9 percentage points above its July trough but well below earlier peaks.

Nonfarm payroll employment expanded substantially in November for the fourth consecutive month, and the unemployment rate was essentially unchanged at 7½ percent. Employment gains were widespread, and the average workweek in manufacturing lengthened slightly.

In November private housing starts remained at the annual rate of about 1½ million units recorded in September and October. Sales of new homes edged off slightly further in October, and sales of existing houses declined for the first time since May.

Producer prices of finished goods rose appreciably in October and November, but the rate of increase over the two months was considerably below the exceptional pace in the third quarter. In October consumer prices continued to rise rapidly; average prices of energy items fell, but mortgage interest rates rose sharply after having declined over the preceding three months. The rise in the index of average hourly earnings of private nonfarm production workers accelerated sharply in October and November; over the first eleven months of the year the index rose at an annual rate of about $9\frac{1}{2}$ percent, compared with an increase of about $8\frac{1}{4}$ percent during 1979.

In foreign exchange markets the trade-weighted value of the dollar against major foreign currencies had risen about $2\frac{1}{2}$ percent over the interval since the Committee's meeting in mid-November. The U.S. foreign trade deficit in October was essentially unchanged from the August–September level, which was well below the rate in the first half of the year. The volume and value of oil imports were up somewhat in October from the sharply reduced levels of the third quarter, while the value of non-oil imports was little changed. Total exports in October also were close to the third-quarter level.

At its meeting on November 18, the Committee had decided that open market operations in the period until this meeting should be directed toward expansion of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the period from September to December at annual rates of about $2\frac{1}{2}$ percent, 5 percent, and $7\frac{3}{4}$ percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remained within a range of 13 to 17 percent. Shortly after the November 18 meeting, incoming data indicated that the monetary aggregates were growing considerably faster than the rates consistent with the Committee's objectives for the September-to-December period. Required reserves and member bank demands for reserves expanded substantially in relation to the constrained supply of reserves being made available through open market operations. These developments were associated with additional upward pressures on the federal funds rate and other short-term interest rates; in the first statement week after the meeting, the funds rate was at about or somewhat above the upper limit of the range of 13 to 17 percent specified by the Committee, compared with an average of $14\frac{1}{2}$ percent in mid-November. In a telephone conference on November 26, the Committee raised the upper limit of the intermeeting range for the funds rate to 18 percent.

On December 4 the Board of Governors announced an increase from 12 to 13 percent in basic discount rates at Federal Reserve Banks and an increase from 2 to 3 percentage points in the surcharge on frequent borrowings of large institutions, effective December 5. This action exerted additional upward pressure on the federal funds rate; in trading during the morning of December 5, the rate generally was well above 18 percent. At the same time, incoming data suggested that M-1A and M-1B currently might be growing a little less rapidly than projected a week earlier, which would imply some reduction in member bank demands for reserves in relation to the supply being made available through open market operations.

In light of uncertainties about the duration and extent of upward pressure on the federal funds rate while markets were adjusting to the discount rate action, the Committee decided in the afternoon of December 5 to provide the Manager for Domestic Operations leeway to pursue the short-run objectives for the reserve aggregates without operations being precisely constrained in the current statement week by the 18 percent upper limit of the intermeeting range for the federal funds rate. On December 12 the Committee decided to extend this leeway for operations through the period before the meeting. In the statement weeks of December 10 and 17 the funds rate averaged 18.8 percent and 19.8 percent. Member bank borrowings receded to an average of about \$1.6 billion in the two statement weeks ending December 17 from an average of about \$2.2 billion in the preceding two statement weeks.

Growth in M-1A and M-1B moderated further in November to annual rates of about 7 percent and 9¼ percent respectively, but these growth rates were still well above those consistent with the Committee's objectives for the period from September to December. In early December growth in both measures of money slowed substantially further. Expansion in M-2 and M-3 continued to accelerate in November, reflecting a surge in both small- and large-denomination time deposits. From the fourth quarter of 1979 through November, growth of M-1A was in the upper part of the range set by the Committee for the year ending in the fourth quarter of 1980; M-1B and M-2 grew at rates somewhat above the upper limits of their ranges, while M-3 grew at a rate slightly above the upper limit of its range.

Total credit outstanding at U.S. commercial banks continued to expand in November at about the rapid pace of the previous three months. Growth in business loans remained especially vigorous, but expansion in other bank loans was also sizable and banks added further to their holdings of securities. Outstanding commercial paper of nonfinancial corporations continued to fall in November, extending the decline that had begun in August.

Pressures on bank reserve positions and strong business demands for credit, along with large Treasury financings, were associated with sharp further increases in short-term interest rates over the intermeeting period. Rate increases were especially pronounced for bank CDs and commercial paper, which rose 3 to 6 percentage points, while Treasury bill rates advanced 1 to 3 percentage points. Most long-term bond yields moved up about ½ to 1 percentage point over the interval. The prime rate charged by commercial banks on short-term business loans was raised from 16¼ percent to a new high of 21 percent. In home mortgage markets, average rates on new commitments for fixed-rate loans rose more than ½ percentage point further, and new commitment activity was reported to be quite limited at prevailing rates.

The staff projections presented at this meeting suggested that the accelerated growth of real GNP in the current quarter was likely to be followed by some decline in the first part of 1981 and by sluggish recovery later in the year. Accordingly, the unemployment rate was expected to increase during 1981. The rise in the fixed-weight price index for gross domestic business product was projected to remain rapid, although not quite so rapid in the second half of the year as in the first half.

In the Committee's discussion of the economic situation and its implications for policy, the members noted the clear possibility of a decline in activity in the early part of the new year and of a sluggish performance over 1981 as a whole, although some members expressed the view that underlying expansive forces were strong. It was observed that the statistical indicators of prospective activity had not been signaling a near-term contraction, but that the greater-than-anticipated expansion in GNP in the current quarter had itself contributed to developments, including the sharp rise in interest rates, that were likely to produce some decline in the early part of 1981. Later in the year, assuming monetary expansion to be consistent with the Committee's longer-run objectives, the recovery was likely to be limited unless progress was made in reducing inflation. The need to deal with the deep-seated problem of inflation was emphasized, as was the difficulty of doing so without accepting risks of unsatisfactory economic performance in the short run. It was generally recognized that the course of economic activity remained difficult to forecast because of the unpredictability of behavior based on inflationary expectations and because of uncertainties about the fiscal and other economic policies of the new administration to be inaugurated on January 20.

At its meeting in July 1980, the Committee had reaffirmed the following ranges for monetary growth from the fourth quarter of 1979 to the fourth quarter of 1980 that it had established in February: M-1A, 3½ to 6 percent; M-1B, 4 to 6½ percent; M-2, 6 to 9 percent; and M-3, 6½ to 9½ percent. The associated range for the rate of growth in commercial bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee had looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. During the course of 1980, an inconsistency had become apparent between the longer-run ranges for M-1A and M-1B as a result of faster-than-expected growth of ATS and NOW accounts, which had been at the expense partly of demand deposits and partly of savings deposits and other instruments not included in the narrowly defined aggregates. In that light, the specified range for growth of M-1B in 1980 should have been somewhat higher than that actually adopted, while the range for M-1A should have been somewhat lower, consistent with the intended economic result.

At this meeting the Committee began a review of the ranges for 1981 in the expectation that at the meeting scheduled for early February it would complete the review and establish ranges for the year within the framework of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act). The Committee once again faced unusual uncertainties concerning the forces affecting monetary growth, in part because of some sizable variations evident in the demand for both narrowly and broadly defined money in relation to nominal GNP during 1980. For the year ahead, moreover, the institutional changes expected to result from the Monetary Control Act of 1980 would need to be evaluated and interpreted. Relationships among the monetary aggregates will be affected by the introduction of NOW accounts on a nationwide basis as of December 31, 1980, as authorized by the act. A staff analysis suggested that during 1981 shifts of funds from demand deposits into NOW accounts would be substantial and would significantly retard the growth of M-1A. At the same time, transfers from savings deposits and other interest-bearing assets into NOW accounts would enhance the growth of M-1B. However, estimates of such shifts varied within wide ranges. Shifts of funds into NOW accounts were not expected to affect growth of M-2 significantly because virtually all of the funds likely to be shifted into such accounts are included in M-2.

In the Committee's discussion of policy for the near term, the members considered rates of monetary growth over the first three months of 1981 against the background of the tentative ranges specified earlier for growth over the year as a whole, pending the completion of the review of those ranges scheduled for the meeting in early February. The midpoints of the tentative ranges for 1981, abstracting from the effects of the introduction of NOW accounts on a nationwide basis, were 4¼ percent for M-1A, 4¾ percent for M-1B, and 7 percent for M-2. It was considered likely that the substantial weakening of the demand for cash balances evident in recent weeks would persist for a time, in response to the sharp increase in interest rates over the past few months and to the slackening of economic activity projected for the months ahead; but growth of M-2 was expected to be greater in relation to growth of the narrowly defined aggregates than suggested by the tentative ranges for 1981.

Most of the members favored specification of monetary growth rates for the first quarter that were consistent with the tentative ranges for growth over the full year ahead. In view of the excessively rapid monetary growth in recent months, they were willing to accept a shortfall from those rates for a time, provided that the shortfall developed concurrently with some abatement of pressures in the money market. However, one member favored specification of higher rates of monetary growth for the first quarter, and another member favored specification of lower rates.

A number of members continued to express concern about the economic and financial effects of the high degree of variability of interest rates in 1980. In the light of the current prospects for economic activity and for the demand for money, these members wished to set a policy course for the near term that would tend both to avoid additional pressures in the money market and to moderate the expected easing of pressures. While the Committee's general practice had been to relax the constraint implied by the intermeeting range for the federal funds rate when the constraint became binding, some members felt that a somewhat narrower range than specified for most recent intermeeting periods might be appropriate to provide an opportunity for review of the situation if market interest rates changed by a sizable amount. It was also suggested that the Committee hold a consultation before the next scheduled meeting if it appeared that the rate might decline quickly toward the lower end of the range. One member expressed the opinion that setting 18 percent as the upper end of the range, which would lead to a prompt easing in money market conditions consistent with a decline in the funds rate to or below that level, would contribute over time to a reduction in the volatility of both interest rates and monetary growth.

At the conclusion of the discussion, the Committee decided to seek behavior of reserve aggregates associated with growth of M-1A, M-1B, and M-2 over the first quarter along a path consistent with the ranges for growth in 1981 contemplated in July 1980, abstracting from the effects of deposit shifts connected with the introduction of NOW accounts on a nationwide basis. The members recognized that the spread of NOW accounts and ATS accounts nationally was likely to widen the differential between growth of M-1A and M-1B to an unpredictable extent and that operational paths for reserves would have to be adjusted in the light of the developing differential. Some shortfall in growth would be acceptable in the near term if that developed in the context of reduced pressures in the money market. If it appeared during the period before the next regular meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent were likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations was promptly to notify the Chairman, who would then decide whether the situation called for supplementary instructions from the Committee.

The following domestic policy directive was issued to the Federal Reserve Bank of New York:

The information reviewed at this meeting suggests that real GNP expanded more in the fourth quarter than in the third, and prices on the average continued to rise rapidly. In November retail sales, industrial production, and nonfarm payroll employment expanded substantially further, and the unemployment rate was essentially unchanged at 7½ percent. Housing starts remained at their September–October level. The rise in the index of average hourly earnings has been somewhat more rapid this year than in 1979.

The weighted average value of the dollar in exchange markets has risen considerably further over the past month. The U.S. trade deficit was unchanged in October, remaining well below the rate in the first half.

Growth in M-1A and M-1B continued to moderate in November but was still relatively rapid; growth in M-2 continued to accelerate, reflecting a further pickup in expansion of its nontransaction component. In early December, growth of M-1A and M-1B slowed substantially further. From the fourth quarter of 1979 to November, growth of M-1A was in the upper part of the range set by the Committee for growth over the year ending in the fourth quarter of 1980; M-1B and M-2 grew at rates somewhat above the upper limits of their respective ranges. Expansion in commercial bank credit was about as rapid in November as on the average in the preceding three months. Short-term market interest rates have risen sharply further in recent weeks. Long-term market yields have also risen, although considerably less, and average rates on new home mortgage commitments have continued upward. On December 4 the Board of Governors announced an increase in Federal Reserve discount rates from 12 to 13 percent and an increase in the surcharge from 2 to 3 percentage points on frequent borrowing of large institutions.

The Federal Open Market Committee

seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of 3½ to 6 percent, 4 to 6½ percent, 6 to 9 percent, and 6½ to 9½ percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of ½ percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates.

In the short-run the Committee seeks behavior of reserve aggregates associated with growth of M-1A, M-1B, and M-2 over the first quarter along a path consistent with the ranges for growth in 1981 contemplated earlier, which will be reviewed in February 1981. Those ranges, abstracting from the effects of deposit shifts connected with the introduction of NOW accounts on a nationwide basis, imply growth in these aggregates centered on 4¼ percent, 4¾ percent, and 7 percent respectively. It is recognized that the introduction of NOW and ATS accounts nationwide at the beginning of 1981 is likely to widen the discrepancy between growth in M-1A and M-1B to an extent that cannot now be accurately estimated, and operational reserve paths will be developed in the light of evaluation of those differences as they emerge. In the light of the rapid growth of monetary and credit aggregates in recent months, some shortfall in growth would be acceptable in the near term if that developed in the context of reduced pressures in the money market. If it appears during the period before the next meeting that fluctuations in the federal funds rate, taken over a period of time, within a range of 15 to 20 percent are likely to be inconsistent with the monetary and related reserve paths, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

> Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, and Winn. Votes against this action: Mrs. Teeters and Mr. Wallich.

Mrs. Teeters dissented from this action because she believed that the objectives for monetary growth were unduly restrictive in terms of their eventual effects on output and employment without improving prospects for significantly tempering the rate of inflation. Pending completion of the Committee's review of its ranges for growth in 1981, she preferred specification of moderately higher rates for monetary growth over the first quarter.

Mr. Wallich dissented from this action because, given the excessive monetary expansion in recent months, he favored specification of lower monetary growth rates for the first quarter of 1981 than those adopted at this meeting along with a higher intermeeting range for the federal funds rate. In his view, such a policy stance was appropriate both to restrain monetary growth if economic activity remained strong and to moderate the probable decline in interest rates if economic activity weakened.

2. Authorization for Domestic Open Market Operations

On January 23, 1981, the Committee voted to increase from $3 billion to $4 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, effective immediately, for the period ending with the close of business on February 3, 1981.

Votes for this action: Messrs. Volcker, Gramley, Guffey, Morris, Partee, Rice, Roos, Schultz, Solomon, Mrs. Teeters, Messrs. Wallich, and Winn.

This action was taken on recommendation of the Manager for Domestic Operations. The Manager had advised that since the December meeting, substantial net sales of securities had been undertaken to absorb reserves in association with a seasonal reduction in currency and deposits. The leeway for further sales had been reduced to about $1 billion, and additional sales in excess of that amount might be required over the rest of the intermeeting interval.

Consumer and Community Affairs

Introduction

The Board's Division of Consumer and Community Affairs focused on two principal tasks in 1980. They were implementation of the Electronic Fund Transfer Act and simplification of regulations under the Truth in Lending Act, the newest and the oldest of the more than a dozen consumer credit protection laws for which the Congress has assigned special responsibilities to the Federal Reserve.

In addition to implementation, the Federal Reserve System began a nationwide program to educate the public about the electronic transfer of funds and the provisions of the new act.

The EFT Act is designed to protect consumers in their use of electronic fund transfers. During 1979 the Board wrote rules (Regulation E) implementing parts of the act, and in January 1980 the Board published final rules for the remaining portions of the act that became effective in May 1980. These regulations establish ground rules for consumers and financial institutions that use this new technology, by means of which consumers can use EFT cards to pay electronically at the point of sale for goods and services, or to deposit, withdraw, or transfer funds from their accounts at automatic tellers.

The Federal Reserve also undertook an educational program designed to make available, especially for high schools, written and filmed materials explaining the electronic transfer of funds, the possible risks in its use, and the rights and responsibilities of the consumers who use EFT services and of the financial institutions that offer them. The Board added to its consumer-oriented publications a 16-page pamphlet, "Alice in Debitland," describing EFT services in story form and answering questions about loss of EFT cards, about ways to correct errors, and about the requirements for documentation of EFT transactions.

On behalf of the System, the Federal Reserve Bank of Philadelphia produced a film, "EFT at Your Service." The 14-minute color film shows how the electronic movement of funds has changed the ways in which Americans conduct their financial affairs. The film is intended especially as a high school teaching aid, and is distributed with a study guide for teachers.

By year-end, the Federal Reserve had printed 3 million copies of "Alice in Debitland," and hundreds of prints of the EFT film were in demand for months ahead.

In its other principal rulewriting activity in the field of consumer credit protection in 1980, the Board intensified efforts to simplify the Truth in Lending rules on disclosures to make it easier for creditors to comply and for consumers to know the full cost of borrowing.

The Truth in Lending Act and the Board's implementing Regulation Z date from 1968 and 1969 respectively. Efforts to modernize, restructure, shorten, and simplify Regulation Z began in 1978 under the Board's Regulatory Improvement Project. The Board had meanwhile recommended changes in the act to the Congress as the basis for a more thorough simplification of the implementing regulation. The Congress subsequently passed Truth in Lending simplification and reform legislation as one section of the Depository Institutions Deregulation and Monetary Control Act of 1980.

At year-end, a new draft of a simplified Regulation Z, based on the new act, had been published for comment, and the Board expected to complete the overhaul early in the new year to meet a deadline of April 1, 1981.

As an important simplification tool, the revised Regulation Z will rely on disclosure forms that will assure consumers that they have correct disclosures and assure creditors that they have complied with the law. Five principal ideas underlie the Board's proposed disclosure requirements:

1. Precise and simple rules should replace statements of principles that themselves often require explanation through new rules.

2. Wider scope should be permitted for tolerances for error and for estimates in making disclosures.

3. The rules should emphasize those disclosures that are most relevant to decisions about the use of credit.

4. Requirements not justified by substantial consumer benefits should be eliminated.

5. Recognizing that regulatory rules cannot span the great variety of credit instruments and credit practices in common use, the regulation should provide flexibility for creditors to apply the required disclosures to their own credit plans.

The proposed new Regulation Z would be shorter and plainer than the current regulation and the Board interpretations that it would incorporate. But the Board made clear that the regulation will, at best, be lengthy and complex because the act affords protection to consumers in a wide variety of transactions, including leasing, credit reporting, and closed- and open-end credit, and because so many types of credit are used in the United States.

The Consumer and Community Affairs Division continued to engage in a broad range of regulatory, compliance examination, and enforcement activities relating to the consumer protection laws the Board administers. The Division also resolves consumer complaints for the Board. These activities are described in subsequent sections of this Report.

As a participant in the Federal Financial Institutions Examination Council, the Board helped develop a new examination policy guide to implement the requirements of the Truth in Lending Simplification and Reform Act.

Other consumer protection activities included adoption of a policy statement for handling protested applications, including applications protested under the Community Reinvestment Act. The policies set forth in the statement are intended to give the public better notice of applications to expand bank holding companies or to merge financial institutions and, in general, to improve procedures for protests. The Board expects these procedures to assist individuals or groups desiring to protest applications that come before the

Federal Reserve and to help applicants comply with relevant laws and regulations.

In other educational activities, the Federal Reserve updated and reissued in 1980 its most popular consumer pamphlet, the *Consumer Handbook to Credit Protection Laws*. Four million copies of this brief, nontechnical guide to consumer credit protection rights and responsibilities have been printed since 1978. The Federal Reserve also continued its program of workshops throughout the nation for high school teachers, to acquaint them with consumer credit protection laws and with the teaching aids available from the System. The Federal Reserve Bank of New York produced a teaching aid on consumer credit protection, aimed at high school audiences, in comic book form.

The Board's Consumer Advisory Council met four times in 1980. The council is headed by Dr. Ralph Rohner, of the Catholic University Law School in Washington, D.C. Its members represent a broad spectrum of consumer, creditor, and other interests from across the nation.

Truth in Lending

This 12th Annual Report on the Truth in Lending Act summarizes the efforts in 1980 of the Board of Governors of the Federal Reserve System to simplify its truth in lending rules for the benefit of consumers and creditors. It also discusses compliance, legislative recommendations from enforcement agencies, and the education of consumers and creditors about truth in lending.[1]

Simplification

In 1980 the Board continued its efforts to simplify truth in lending by supporting legislative simplification and proposing simplified versions of the act's implementing regulation, Regulation Z. The effort to simplify truth in lending rules was initiated under the Board's Regulatory Improvement Project and shaped by the Truth in Lending Simplification and Reform Act. The main goals of the Board's effort to simplify Regulation Z are to benefit the consumer by requiring disclosures to be clearer and more useful, to help direct the enforcement efforts of regulators to the most important provisions of the Truth in Lending Act, and to eliminate unnecessary burdens for creditors.

Regulatory Improvement

The Regulatory Improvement Project, adopted by the Board of Governors in June 1978, is broad in scope. Its goals are to improve the organization of the Board's regulations, to broaden access to regulatory materials, to eliminate any unnecessary burdens imposed by regulations, to clarify regulations, and to adopt nonregulatory programs when possible to achieve the desired results. The project calls for the periodic review of every Board regulation. The objectives of the project were underlined by the enactment of the Regulation Simplification Act of 1980 (Title VII of the Depository Institutions Deregulation and Monetary Control Act), which establishes rulewriting goals similar to those of the Board's project.

Proposals initiated under the Regulatory Improvement Project to simplify Regulation Z generally include reducing the number of disclosures that creditors are required to make to consumers, reorganizing the regulation to make it more convenient to use, providing model forms to ease compliance, and simplifying rules for computing annual percentage rates. These proposals are discussed in detail later in this report.

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[1] A report on truth in lending for the year 1980 was issued to the Congress on January 2, 1981.

Legislative Simplification

Legislative simplification, which the Board supported, was accomplished on March 31, 1980, with the enactment of the Truth in Lending Simplification and Reform Act (Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980). The simplification act, which amends the Truth in Lending Act, provides consumers with simpler and more meaningful disclosures, eases creditor compliance, strengthens enforcement, and limits creditor civil liability to substantive violations. In addition, Title VI exempts all agricultural credit from the act and instructs agencies to order creditors to make monetary restitution to consumers for certain violations. The restitution provisions were effective immediately; all other provisions are effective on April 1, 1982. Implementing regulations must be in place by April 1, 1981, but will not be mandatory until a year later. From April 1, 1981, to April 1, 1982, creditors may comply with either the old or the revised regulation.

Realities of Simplification

In the Board's view, the present Regulation Z is too complicated and broad in coverage. This problem is due largely to statutory expansion of the Truth in Lending Act and the variety of credit offered by financial institutions. The regulation has resulted in a process that is costly for creditors and, because the cost may be passed on, often for consumers as well. Enforcement agencies have tended to report high rates of noncompliance with the regulation, although they regard many violations as not harmful to the consumer.

While the Board sees the need for simplifying the regulation, it recognizes that even the most successful simplification effort will not produce a brief, simple document for three basic reasons.

First, the scope of the original Truth in Lending Act has been greatly expanded by statutory additions. The present Regulation Z is 53 pages long. Besides implementing the original rules on credit disclosures, the regulation now implements statutes governing the issuance of credit cards, the liability for their loss, resolution of billing errors, and disclosures for consumer leases. Other provisions discourage creditors from forcing consumers to buy credit life insurance, protect consumers from unwisely encumbering their homes, and ensure that consumers can withhold payment for shoddy merchandise purchased with a bank credit card. In short, the breadth of the legislation that Regulation Z implements will remain a major impediment to brevity and simplicity.

Second, one goal of the simplification effort is to incorporate virtually the entire body of published material on truth in lending into the regulation and accompanying commentary. This material includes more than 1,500 staff interpretations issued since 1968, on which the credit granting industry relies. It is worth noting that federal courts have heard about 13,000 truth in lending lawsuits since

1969, or about 100 per month. The incorporation of the extensive interpretive material is at odds with the goal of simply shortening the regulation.

Third, credit itself has become complex. The 153 highly technical subsections of the present Regulation Z bear witness to this fact. Credit may be available on a revolving or closed-end basis; payable on demand or in equal or graduated installments; with a precomputed finance charge, on a simple interest basis, or both; secured or unsecured; and with or without credit life and property insurance, which may be voluntary or required. It may be requested in person, by mail, or by telephone; and may be renewed, assumed, or deferred. In most cases, implementing the statute requires that these variations, and many more, be reflected in the regulation.

Simplification Proposals

In the spring and fall of 1980, the Board issued proposals to simplify Regulation Z. These proposals point toward a new regulation that will improve the delivery of credit-shopping information to consumers, that will be shorter, simpler, easier to use, reduce costs related to compliance and litigation, and redirect enforcement efforts to the most important matters.

More than 4,000 pages of comments were received in response to the proposal in the spring, and in light of those comments and further staff analysis, the proposal was extensively revised for further public comment. The resulting proposal, issued for comment in the fall, is a proposed regulation that includes the formal Board interpretations, but is 40 percent shorter than the current Regulation Z and the interpretations.

In addition to being shorter, the proposed regulation would be relatively easy to use. As suggested by the Regulatory Improvement Project, the revision restructures the regulation's format by grouping related provisions in separate subparts. Rules related to closed-end credit (for example, installment sales and mortgage loans) are presented separately from those related to open-end (revolving) credit. The proposal also contains model forms and clauses for use in the common, great majority of transactions that are covered in the proposal. These forms should ease the burden of compliance and improve the format of the information given to consumers.

The final revised proposal was guided by five main ideas. The first idea is that the regulation should contain precise, simple rules instead of principles that create ambiguity and require additional regulatory clarification. Second, tolerances in disclosure should be more widely applied. Third, emphasis should be placed on disclosures relevant to credit decision-making. Fourth, burdens not justified by substantial consumer benefit should be eliminated. Finally, the regulation should give creditors flexibility to tailor disclosures to their credit plans. The results of applying these ideas in writing the final proposal are sketched briefly below.

Simple rules. The proposed rules are simple and straightforward. The proposal presents the basic rules and requirements of the statute without complicating detail. The straightforwardness makes the rules relatively easy to apply and should result in a reduction of interpretations and litigation. The Board expects the new regulation to be used with a commentary that will replace letters of interpretation and will provide whatever guidance is necessary. The commentary will be updated at regularly scheduled intervals (perhaps twice a year), so that creditors and others will know when to expect changes.

Wider application of tolerances. The act authorizes the Board to allow tolerances or margins of error in some disclosures and permits creditors to use estimates in making disclosures. Regulation Z has always included some such provisions. The proposal authorizes, for the first time, a tolerance for the disclosure of the finance charge. It also authorizes, among other things, increased tolerance in disclosing the annual percentage rate in complex transactions for which calculations may be difficult.

Disclosures related to credit decisions. The proposal concentrates on disclosures that are most relevant to the credit-shopping process and on which consumers are most likely to rely in making credit decisions. This means that the regulation focuses less on terms like security interests and prepayment penalties, and also less on changes in terms that take place after the credit decision is made.

Burdens justified by substantial benefits. The proposal emphasizes disclosures in common transactions that are of clear, substantial benefit to consumers. The proposal focuses less on unusual transactions that would require disclosures too complex to be useful to consumers.

Creditor flexibility. Because of the variety of instruments and practices in the credit industry, creditors themselves can sometimes design better disclosures than the regulation can spell out. In some cases, the proposal simply sets forth a basic disclosure requirement and permits creditors to tailor disclosures to their own credit plans, as in transactions involving variable rates or in certain construction loans.

The proposal reduces the number of disclosures in most credit transactions, as required by the Truth in Lending Simplification and Reform Act. The disclosures will have less information than those required under the current regulation, but the most important information—the terms that are most needed by consumers in shopping for credit—is retained. The proposal would require creditors to disclose the annual percentage rate, finance charge, amount financed, payment schedule, and total payments in a form that is straightforward, uncluttered, and therefore more accessible and usable for the consumer.

Comments on the proposal issued in the fall, were requested by January 19, 1981.

Simplification Amendments

In 1980 the Board adopted four amendments to Regulation Z.

Simplification of rules for calculation and disclosure of annual percentage rate and other credit terms. On December 31, 1979, the Board announced its adoption of certain amendments, effective January 10, 1980, to simplify the calculation and disclosure of the annual percentage rate and other credit terms. The most important of these amendments established a tolerance of 1/8 of 1 percentage point in either direction from the exact annual percentage rate, simplified the rules for treating minor variations in payment schedules, and expanded the protection available to creditors who have relied in good faith on faulty calculation tools.

Extension of effective date of revocation of an amendment exempting open-end credit arrangements from certain rescission requirements. In 1978 the Board created an alternative in certain circumstances to the three-day cancellation right, generally applicable to each transaction under an open-end credit account secured by a consumer's residence. This action was revoked in September 1979, effective March 31, 1980. However, in anticipation of congressional action that would endorse the alternative, the Board moved in February 1980 to delay the planned revocation date.

Exemption of agricultural credit from truth in lending requirements, and elimination of disclosure requirements for periodic statements in closed-end credit transactions. Effective May 21, 1980, the Board implemented provisions of the Truth in Lending Simplification and Reform Act that exempt agricultural credit from disclosure requirements of truth in lending and eliminate disclosure requirements for periodic statements in closed-end credit transactions. These provisions were implemented immediately because there appeared to be no sound reason for delay.

Increase in tolerance for annual percentage rates in irregular mortgage transactions. This amendment was proposed on May 20, 1980, and adopted after review of the comments, which were mostly favorable. Following the intent that was expressed in the conference report on the Truth in Lending Simplification and Reform Act, the amendment permits a tolerance of up to 0.5 percentage point in the disclosure of annual percentage rates for complex mortgage transactions. The more generous tolerance is available until March 31, 1981. Beginning on April 1, 1981, irregular mortgage transactions must meet the general standards of accuracy.

Uniform Enforcement Actions

In July 1980 the Board adopted a policy guide to enforce the restitution provisions in the Truth in Lending Simplification and Reform Act. The guide, "Administrative Enforcement of the Truth in Lending Act—Restitution," was developed by the Consumer Compliance Task Force of the Federal Financial Institutions Examination Council (FFIEC), which comprises representatives of the five federal agencies that regulate financial institutions. The act requires the agencies to order creditors to make monetary restitution to the accounts of consumers in cases in which disclosure errors resulted from a clear and consistent pattern or practice of violation, gross negligence, or a willful violation that was intended to mislead the consumer. The policy guide describes rules for determining violations covered by the provisions, for calculating adjustments, and for defining the extent of agency discretion in ordering restitution.

Consumer Advisory Council

The Consumer Advisory Council, which was established in 1976 to advise the Board on its responsibilities under the Consumer Credit Protection Act and other consumer-related activities, consists of 31 members representing the interests of consumers and creditors in different regions of the country. The council met four times in 1980. It considered the requirements of the Truth in Lending Simplification and Reform Act, and, specifically, the use and timing of alternative shopping disclosures for closed-end credit and ways to disclose changes in credit terms that occur during the life of a credit contract. Other truth in lending matters discussed included legislative and regulatory amendments to integrate provisions regarding error resolution and consumer liability under the Truth in Lending Act and the Electronic Funds Transfer Act and whether truth in lending disclosure requirements adequately ensure consumer understanding of the method of computing finance charges that is called the "average daily balance (with current debits)."

The council also discussed the relationship between credit-scoring systems and Regulation B, which implements the Equal Credit Opportunity Act; enforcement of the Community Reinvestment Act; whether state usury ceilings should be preempted by federal law; regulation of alternative mortgages; the "Holder II" rule proposed by the Federal Trade Commission; and uniformity in consumer credit enforcement.

Compliance

The five federal agencies that supervise financial institutions reported that the 1980 compliance picture shows little substantive change from 1979. The Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) report small increases in the number of institutions not in full compliance; the Board, the Office of the Comptroller of the Currency (OCC), and the Federal Home Loan Bank Board (FHLBB) show a small decrease in noncompliance. All of the agencies report high noncompliance. It should be noted that institutions reported as not being in full compliance include those with only one, or a few, violations. It is likely that noncompliance would be substantially reduced if only institutions with a more significant number of violations were counted. Agencies reporting that more violations have been discovered in 1980 believe that the reason is the increased sophistication of examiners and improved examination techniques.

To assist member banks in complying with truth in lending requirements, the Federal Reserve System provided 219 educational/advisory visits in 1980. The Board believes that the high level of noncompliance reported by each of the agencies is strong evidence of the need for simplification of Regulation Z. Many of the reported violations represent failure to follow detailed requirements that could be simplified with no substantive loss to consumers. An example of this is the requirement that the specific term "balloon payment" be used in closed-end credit disclosures.

The FDIC issued three cease-and-desist orders in 1980 that charged violations of the act and Regulation Z. The Board entered into written agreements with two banks to ensure correction of Regulation Z violations, including understatement of annual percentage rates and finance charges and other violations of general disclosure requirements.

According to the Board's records and to summaries of examination findings compiled by the OCC, FDIC, FHLBB, and NCUA, the violations discovered most frequently are (1) failure to use required terms such as "total of payments" and "balloon payment" in disclosures related to closed-end credit, (2) failure to obtain separately signed and dated credit life insurance authorizations, (3) failure to follow requirements related to rules that call for describing property that secures credit, (4) failure to disclose either the correct finance charge or the annual percentage rate, and (5) failure to disclose other information related to periods of payments scheduled to repay indebtedness.

The other agencies with statutory authority to enforce truth in lending—the Civil Aeronautics Board (CAB), the Farm Credit Administration (FCA), and the Small Business Administration (SBA)—report that the institutions they supervise are generally in substantial compliance with truth in lending. The CAB also reports that four carriers were found to be in violation of certain requirements related to timing in the transmission to credit-card issuers of credit statements used to make refunds. The regulation requires that in sales transactions involving a credit card issued by a person other than the seller, the seller must send to the card issuer within seven days any credit statements used to effect a refund. Consent agreements with two of the carriers have been negotiated, and two others are in process.

The Federal Trade Commission (FTC) has been conducting an industrywide investigation to see whether creditors under its jurisdiction are correctly charging customers for credit and making the disclosures required by truth in lending. The commission reports that creditors appear to persist in failing to disclose clearly, when applicable, that credit insurance in closed-end credit transactions is voluntary, and in failing to make required disclosures before consummation. The FTC also mentioned that many advertisers of automobile financing continue to advertise the "add on" rate instead of the annual percentage rate, and many mortgage lenders advertise the simple interest rate. The FTC also notes that consumer complaints and inquiries suggest continued widespread noncompliance with the Fair Credit Billing Act and Regulation Z, especially with regard to procedures for resolving errors in consumer accounts. The FTC mentions two consent orders and two consent judgments as significant enforcement actions in 1980. These involve an oil company, a retail business, a real estate firm, and a furniture business.

The FTC attributes the apparently high level of compliance with the Consumer Leasing Act that it has noted to the sample lease disclosure forms issued by the Board.

Legislative Recommendations

Some of the enforcement agencies have responded in writing to the proposed revisions of truth in lending rules, and these recommendations have played an important role in rulewriting by the Board. Beyond these regulatory recommendations, the Board and the NCUA have recommended the enactment of proposed legislation to integrate the requirements of the Electronic Fund Transfer Act with the Truth in Lending Act; the NCUA has also recommended further exploration of the feasibility of reducing truth in lending compliance burdens for small financial institutions. The Comptroller of the Currency has recommended that real estate disclosures be simpler and fewer in number.

Education

In 1980 the Federal Reserve System continued to provide a variety of educational materials and services to educate consumers and creditors. The Board and the Federal Reserve Banks distributed more than 2 million copies of its pamphlets on Regulation Z, including "What Truth in Lending Means to You," "If You Use a Credit Card," and "Truth in Leasing;" as well as 2 million copies of the Board's "Consumer Handbook to Credit Protection Laws," which summarizes the main provisions of seven major laws on consumer credit protection, including truth in lending, consumer leasing, and fair credit billing. More than 2.3 million persons are estimated to have viewed the film on consumer credit protection, entitled "To Your Credit."

In November 1980 a consumer exhibit prepared by Board staff members was recognized by the District of Columbia Office of Consumer Protection and the Washington Chapter of the Society of Consumer Affairs Professionals for its excellence. The exhibit was judged for its practical value to the consumer and for the effectiveness of its method of presenting information.

The FDIC offered 46 consumer compliance seminars to banks throughout the country during the year. The seminars were designed particularly to help small banks. It also established a toll-free consumer hotline to give consumers better access to information about credit protection laws.

The NCUA reports that, in addition to providing an advisory service and speakers to groups of credit unions, it entered into a contract in 1980 with the Consumers League to prepare educational materials that will be known as "The Informed Consumer."

The FTC reports that thousands of copies of its new consumer credit and lease advertising manual, "Advertising Consumer Credit and Lease Terms," have been distributed through the Government Printing Office. It has also distributed a series of fact sheets, "Facts for Consumers from the Federal Trade Commission," some of which are on truth in lending.

The Bureau of Consumer Protection of Maine, one of the states that has been granted exemptions from most provisions of federal truth in lending requirements, publishes a quarterly newsletter to keep creditors informed of regulatory developments. To encourage credit shopping, it also publishes a monthly newspaper listing of prevailing annual percentage rates for typical consumer loans.

Oklahoma, also an exempt state, reports that it provides speakers to a variety of groups and is particularly active in developing consumer education materials for use in public schools from kindergarten through high school. It also worked with college newspapers and radio and television stations to disseminate information on consumer credit protection.

Equal Credit Opportunity

This fifth annual report on the Equal Credit Opportunity Act (ECOA) discusses the Federal Reserve System's enforcement of, and assessment of compliance with, the act and Regulation B in 1980. It also examines the enforcement activities of other federal agencies, their assessment of such compliance by the creditors that they supervise, and, in the case of some agencies, their efforts to educate consumers and creditors about equal credit opportunity. The report then describes the rulewriting activities and legislative recommendations of the Board; the Consumer Advisory Council; and interagency activities.

Enforcement and Assessment of Compliance

Most of the federal agencies that are responsible for enforcing the ECOA and Regulation B indicated that compliance improved in 1980. Statistics from summaries of examination reports of the Board, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Home Loan Bank Board (FHLBB) show varying levels of improvement. The Small Business Administration (SBA), the U.S. Department of Agriculture (USDA), the Civil Aeronautics Board (CAB), the Securities and Exchange Commission (SEC), and the Farm Credit Administration (FCA) reported that compliance among the creditors they supervise generally appears good.

Federal Reserve System

The Federal Reserve enforces the ECOA and Regulation B through its examination of state member banks and investigation of consumer complaints against these banks. Specially trained consumer affairs and civil rights examiners from the Federal Reserve Banks conduct the examinations, and Board staff members review selected examination reports to determine the compliance status of individual banks. Examination reports are also reviewed to evaluate and improve examination procedures and reporting methods.

The Board's records show significant improvement in 1980 in the compliance of state member banks with the ECOA. The Federal Reserve System examined about 10 percent more state member banks in 1980 than in 1979; examination reports received as of December 1980 reveal that 60 percent of the banks examined had one or more violations, compared with 77 percent in 1979. The most common violations were failure to provide an adverse-action notice (containing a statement of the action taken, the required ECOA notice, and the name and address of the federal agency that enforces compliance); failure to notify applicants of the action taken within specific time periods; and failure to make required disclosures related to requests for information about "other income."

In 1980 the Board took formal action against two state member banks that had violated consumer laws and regulations. In both cases written agreements were issued that required each bank to appoint a compliance officer whose job description and qualifications were to be reviewed by the appropriate Reserve Bank, to submit written compliance procedures to the Reserve Bank within a prescribed time, to establish consumer protection training and educational programs for bank employees, to develop an internal program to audit compliance with consumer laws and regulations, to replace or correct all disclosure forms to ensure compliance, and to establish procedures for periodic progress reports to the Reserve Bank.

The Federal Reserve System replies

to complaints and inquiries about diverse areas of consumer activity. Responses range from providing consumers with explanations of laws to conducting investigations that may reveal errors made by state member banks. In the latter case, the bank is asked to take corrective action. Complaints alleging illegal credit discrimination are investigated by the appropriate Federal Reserve Bank and the consumer is informed of the results. In cases of possible violation, the commercial bank is required to take corrective action and the consumer is advised of his or her rights and remedies.

The Federal Reserve System received 284 ECOA-related complaints against state member banks in 1980. Of the 238 complaints, or 84 percent that concerned adverse actions, 31 alleged discrimination on the basis of characteristics covered by the act: eight, on age; seven, on sex; seven, on source of income; four, on marital status; two, on race, color, or national origin; two, on exercise of rights under the Consumer Credit Protection Act; and one, on religion. The other complaints alleged unfair treatment: 83, with regard to credit history; 29, income; 22, length of employment; 13, length of residency; and 60, miscellaneous.

Of the 238 complaints, 21 percent were resolved by correcting the complainant's misunderstanding of the law; 57 percent, through investigation that revealed no bank error; 1 percent, through investigation that revealed a factual dispute between the complainant and the bank (the consumer was advised to consult an attorney); 1 percent, through investigation that revealed a possible bank violation; 4 percent, through investigation that revealed a bank error, which was corrected; and 2 percent through investigation that revealed error on the part of the customer. As of October 31, 1980, the remaining 14 percent were still under investigation.

To assist creditor compliance with the requirements of the ECOA and Regulation B in 1980, representatives of the Federal Reserve System visited more than 219 member banks to advise them about the requirements of the act and other consumer laws. These visits are made to member banks on request and provide them with the opportunity to ask specific questions about how ECOA requirements relate to the actual practices and procedures of the bank.

The Federal Reserve distributed more than two million copies of the Board's consumer pamphlets on the ECOA, including "The Equal Credit Opportunity Act and Women," "The Equal Credit Opportunity Act and Age," "The Equal Credit Opportunity Act and Doctors, Lawyers and Small Retailers," "The Equal Credit Opportunity Act and Credit Rights in Housing," and "How the New Equal Credit Opportunity Act Affects You." These pamphlets are distributed free on request and during presentations to consumers and creditors.

In 1980 more than two million people viewed the color film, "To Your Credit." Designed for school and television use, the film shows how Regulation B and Regulation Z, Truth in Lending, protect the consumer.

Other Agencies

The Civil Aeronautics Board (CAB) reported a satisfactory level of compliance among U.S. and foreign air-lines in 1980. The number of consumer complaints in 1980 was lower than in 1979, and, according to the CAB, none warranted formal enforcement action.

The Farm Credit Administration (FCA) reported good compliance with the act. They received 12 complaints in 1980, and investigations revealed no violations. Four of the twelve complaints charged discrimination based on sex; three, on race; one, on national origin; and four specified no particular basis.

The Federal Deposit Insurance Corporation (FDIC) reported a modest improvement in compliance with the act in 1980. Of the banks examined, 47 percent were not in full compliance with Regulation B, compared with 50 percent the previous year. The violations that were reported most frequently, according to the FDIC, all related to the requirements for adverse-action notices; failure to provide a notice; failure to provide a written statement of specific reasons for adverse action, or a notice of the right of the applicant to such a statement; failure to provide the required name and address of the FDIC as the enforcement agency; and failure to give the required ECOA notice.

The FDIC received 369 consumer complaints and 186 inquiries related to equal credit opportunity. The types of discrimination that were most frequently alleged were related to sex, marital status, race, color, and national origin, in that order.

Several FDIC activities in 1980 were designed to provide information and education on the ECOA to creditors and consumers. The agency conducted consumer compliance seminars for bankers on equal credit opportunity, fair housing, and community reinvestment; provided consumers with a toll-free "hotline;" and prepared for a series of consumer-awareness seminars to begin in early 1981. The seminars are aimed at neighborhood leaders and others concerned with consumer protection and civil rights issues.

The Federal Home Loan Bank Board (FHLBB) reported that 23 percent of the institutions it examined in 1980 were found to have one or more violations of Regulation B. About 3,000 violations were reported last year, down from 4,000 in 1979. The most frequent violations reported were failure to provide applicants with the required adverse-action notice, failure to provide the required information on adverse-action notices, and failure to retain records as required by Regulation B.

The FHLBB reports that 217 complaints related to equal credit opportunity were received in 1980. Of these, 131 did not involve violations; 17 involved interpretive problems that were settled; 18 were unresolved as of September 30, 1980; 45 were referred to other agencies for resolution; and 6 involved violations or errors that were corrected.

The Federal Trade Commission (FTC) reported that overall compliance with the act seems to have improved, and that it received fewer complaints related to credit discrimination in 1980 than in 1979. Continuing compliance problems in the sales finance and small loan industries, according to the FTC, involve requests for a spouse's signature and information about a spouse. The FTC has also reported that a number of creditors may treat protected income less favorably than other income in both judgmental and credit-scoring systems. It continues to be concerned that the use of ZIP codes in credit-scoring systems may have a disproportionately adverse effect on racial minorities. Finally, the FTC reported that its staff investigation of mortgage lenders, sales finance companies, and small loan companies suggests that various subtle forms of discrimination, such as discouraging minorities and others from applying for credit, may be replacing the more blatant discriminatory practices that were documented during hearings before the enactment of the ECOA.

The FTC initiated formal action against two creditors that failed to comply with the act. A complaint filed by the Department of Justice on behalf of the FTC charged that an oil company's consideration of ZIP codes had the effect of discriminating against blacks and Hispanics; its practice of discounting protected income had the effect of discriminating against women and recipients of public assistance; and its method of disclosing reasons for adverse action failed to reveal the specific reasons for denial. In a second consent judgment, the FTC acted against a credit union that discriminated against women by treating anticipated maternity leave as grounds for denying credit.

The FTC also reports the development of a program to monitor the credit activities of the Farmers Home Administration. The program requests everyone who applies to the Farmers Home Administration for credit to specify his or her race, sex, and national origin for monitoring purposes; if the information is not volunteered, it must be designated by the person taking the application based on surname or visual observation. Educational activities of the FTC during 1980 included lectures at industry conferences and the continued distribution of two consumer brochures, "Women and Credit Histories" and "Equal Credit Opportunity."

The Interstate Commerce Commission (ICC) reported that it received no consumer complaints related to credit discrimination in 1980, as in 1979. The ICC has created a new office of consumer protection to maintain a computer record of complaints and to develop profiles of carrier abuses and irregularities.

The National Credit Union Administration (NCUA) reported that 63 percent of the credit unions examined in 1980 were found not to be in full compliance with the ECOA; in 1979 the figure was 44 percent. The NCUA attributes this increase to the intensified examination procedures of its new separate examination program for consumer compliance. The most frequently reported violations, according to the NCUA, were failure to provide adverse-action notices, failure to avoid loan policies that might have the effect of discriminating on a prohibited basis; failure to avoid certain prohibited requests for information on loan applications; and failure to avoid prohibited requests for the signature of a spouse. The NCUA issued two cease-and-desist orders in 1980.

In 1980 the NCUA received 57 consumer complaints. The two most common allegations were discrimination on the basis of race and national origin and failure to provide proper adverse-action notices.

The Office of the Comptroller of the Currency (OCC) reported improved compliance with the ECOA.

Of the banks examined in 1980, 63 percent were not in full compliance, compared with 82 percent in 1979. The most frequently reported violations, according to the OCC, were failure to provide adverse-action notices or notices of the right to receive such a statement; failure to disclose the rights of applicants with regard to giving information about income from alimony, child support, separate maintenance, part-time employment, retirement benefits, or public assistance; failure to provide a notice of action taken within the required time periods; and failure to observe prohibitions against requesting marital status and using certain terms in applications for unsecured credit. The OCC reported a number of administrative actions in 1980 against banks failing to comply with the act and Regulation B: four cease-and-desist orders, eleven formal agreements, and four memoranda of understanding.

The OCC received 1,180 consumer complaints involving the ECOA. More than two-thirds were related to the requirements for denial of credit: 16 percent alleged that the creditor refused to give reasons for adverse action, and 52 percent claimed a lack of clarity in the reasons given. Two-thirds were related to bank credit cards. The OCC reported 44 percent of the complaints of discrimination named either sex or marital status.

To educate consumers and creditors about the ECOA and Regulation B, the OCC provided speakers for meetings with consumer and civil rights groups and assisted trade groups in preparing educational materials on the ECOA. In 1980 the OCC began using a computerized mailing list to send information to consumer, civil rights, and community groups.

The OCC reported that in the last quarter of 1980, a new unit was formed to implement the ECOA and other fair lending enforcement laws. This unit is expected to produce a sharper focus on civil rights enforcement activities and a more effective coordination of civil rights responsibilities. The OCC also reported a new data system, the Fair Housing Home Loan Data System, designed to determine national bank compliance with the ECOA and the Fair Housing Act. The system has been in operation since August 1980; it requires national banks to submit information on home-loan activity each month, and, if warranted, additional information on a sample of home-loan applications.

The Securities and Exchange Commission (SEC) reported continued good compliance with the ECOA. Only one complaint relating to the act was received in 1980, and investigation revealed that no violation occurred.

The Small Business Administration (SBA) reported continued good compliance with the ECOA; no violations were discovered in 1980, as in 1979. The SBA received 21 complaints of discrimination, but none were substantiated. In response to an audit of its civil rights compliance activities by the Department of Justice, the SBA is conducting onsite reviews of all small business investment companies, development companies, and other recipients of SBA funds.

The U.S. Department of Agriculture (USDA) reported no compliance problems in the limited program under the Packers and Stockyards Act.

Rulewriting

In August 1980 the Board issued two proposed interpretations of Regulation B. The first concerns the consideration of income by creditors, and the second, the disclosure of reasons for adverse action.

The first proposal deals with the meaning of the requirement in Regulation B that a creditor not discount or exclude from consideration an applicant's income that is derived from alimony, child support, separate maintenance, part-time employment, retirement benefits, or public assistance. Under the proposal the creditor would be required, in evaluating a credit application, to treat protected income at least as favorably as income from any other source. When such income would have no effect on the credit decision, the creditor would not have to consider it.

The second proposal addresses the question of how a creditor should select and disclose the principal reasons for denying credit. In the case of a credit-scoring system, the disclosed reasons for adverse action would have to be directly related to the factors actually scored by the creditor. Creditors would be required to attempt to disclose the minimum adjustment that the applicant would have to make to become creditworthy. Regardless of the method used to evaluate credit applications, the creditor would be required to be consistent in the use of that method, applying it to all applications.

In response to numerous requests, and to encourage public participation, the comment period for both proposals was extended to December 22, 1980. The Board is expected to take final action on the proposed interpretations in the first quarter of 1981.

Final action on two amendments to Regulation B that relate to business credit will be considered by the Board at the same time. The amendments, proposed in October 1978, would eliminate the exemption of business credit from requirements for recordkeeping and notification in certain transactions under $100,000, and from the prohibition against requesting information on marital status in all business credit transactions.

Legislative Recommendations

The Board received one legislative recommendation from the Small Business Administration (SBA). With regard to the SBA and its recipients who engage in credit activity, the Equal Credit Opportunity Act is enforced by the Civil Rights Compliance Division of the SBA through a letter of understanding with the Federal Trade Commission. The SBA has expressed the belief that the act should assign this enforcement responsibility directly to the SBA.

Consumer Advisory Council

The Consumer Advisory Council was established in 1976 to advise the Board on its responsibilities under the Consumer Credit Protection Act and other consumer-related activities. The council has 31 members who represent the interests of consumers and creditors and come from different regions of the country.

The council met four times in 1980. Regarding equal opportunity in credit, the council discussed credit-scoring systems; in particular, the advantages and disadvantages of judgmental and credit-scoring systems to consumers and creditors, the use of ZIP codes in scoring systems, and the importance of creditors giving consumers adequate adverse-action notices. Some council members suggested that the federal government monitor credit-scoring practices that use ZIP codes; these members were concerned that the use of ZIP codes may have the effect of discriminating against applicants in certain racially or ethnically concentrated neighborhoods. Other members cautioned against federal attempts to tinker with credit-scoring systems because removing a particular factor can have an undesirable effect on the classes of borrowers that the law seeks to protect.

With regard to reasons for denial of credit, many council members were firm in expressing the view that the reasons should be explained as fully as possible so that consumers have the opportunity to refute any inaccurate or unusual factor used in the assessment.

The council also discussed enforcement of the Community Reinvestment Act and the need for uniformity in the enforcement of consumer credit protection and related civil rights laws.

Interagency Activities

The member agencies of the Federal Financial Institutions Examination Council—the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration—have jointly proposed uniform guidelines for the enforcement of the ECOA, Regulation B, and the Fair Housing Act. Field tests to determine the operational feasibility and the general effectiveness of the guidelines were completed in early 1980, after which the guidelines were redrafted by an interagency work group and sent to the Examination Council's Task Force on Consumer Compliance.

The Examination Council conducted five Consumer Compliance Schools in 1980 to refine its educational program before giving it formal approval. The development of the lesson plans, the teaching, and the other responsibilities associated with the school were all shared by the agencies represented on the Examination Council. More than 195 consumer examiners from the member agencies were trained at these schools. About 16 percent of the classroom time at each of the sessions was devoted to the ECOA, Regulation B, and the Fair Housing Act; about 27 percent, to civil rights in general.

Federal Trade Commission Act

This sixth annual report describes the activities of the Board of Governors of the Federal Reserve System that are required under section 18(f) of the Federal Trade Commission Act. The Board's responsibilities are to identify and prohibit unfair or deceptive banking practices; to receive and remedy complaints against state member banks; and within 60 days of the issuance of certain rules by the Federal Trade Commission, to promulgate bank regulations that are substantially similar, unless certain exceptions apply.

Identification of Unfair or Deceptive Practices

During 1980, the Board continued to monitor consumer complaints about unregulated banking practices to identify those that are unfair or deceptive. To help in this identification, the Board added an "early warning" feature to its computerized system for consumer complaints. This feature signals the receipt of 15 or more complaints per quarter, or 50 annually, about any single category of unregulated practices. In 1980, 971 such complaints were identified by the early warning feature.

These complaints fall into 11 categories: those about disputed deposits (174, or 8.8 percent of the total number of complaints about unregulated practices, including those not signaled by early warning); discrepancies in accounts (144, or 7.3 percent); excessive time to clear check deposits (95, or 4.8 percent); excessive insufficient-fund charges and miscellaneous procedures (89, or 4.5 percent); refusals to cash checks (79, or 4 percent); excessive or allegedly unfair service charges (72, or 3.6 percent); late receipt of dividend checks (73, or 3.7 percent); repossessions in debt collection (60, or 3 percent); other tactics in debt collections (75, or 3.8 percent); high interest rates and other terms (54, or 2.7 percent); and alleged mismanagement of trust accounts (56, or 2.8 percent).

The two most numerous kinds of complaints (disputed deposits and discrepancy in accounts) really reflect factual disputes, and thus do not clearly involve practices that are unfair or deceptive. Moreover, they represent only a small fraction (3.9 and 3.2 percent respectively) of the total of all consumer complaints, including those about regulated and unregulated practices. Table 1 identifies by subject the consumer complaints received by the Federal Reserve System during 1980.

In 1980, the Board used nonregulatory means to prevent possible unfair or deceptive practices by member banks; for example, the Board issued a policy statement in October concerning advertising by member banks of negotiable order of withdrawal (NOW) accounts. The purpose was to emphasize that the advertising requirements of Regulation Q (Interest on Deposits) apply to NOW accounts.

The policy statement set out the following procedures:

1. Any advertisements or promotional materials issued before December 31, 1980, for NOW accounts or accounts that will be converted to NOW accounts should prominently indicate the unavailability under federal law of NOW account services before December 31, 1980.
2. Existing accounts that are scheduled to be converted on December 31 should not be characterized before that time as NOW accounts.
3. Any advertisement of a specific rate of interest to be paid on a NOW account must comply with the provisions of Regulation Q regarding interest on deposits.
4. The fact that conditions or charges are to be imposed on the account must appear in the advertisement.
5. An institution should inform its customers, not later than the time a NOW account is opened, or an existing account is converted to a NOW account, of the method for com-

puting and paying interest on the account, including conditions for earning a stated return and charges that may be assessed against the account.

Consumer Complaints

The Federal Reserve System received 4,505 complaints in 1980: 2,582 by mail, 1,860 by telephone, and 63 in person (table 1). The total number received represents an 11 percent increase over 1979, which the Board believes is due largely to the System's continuing effort to educate bank customers about their rights and how to exercise them. The Board is encouraged by this evidence of success in its consumer education efforts.

In 1980, the Board staff received 349 written inquiries concerning consumer credit laws and bank policies and procedures, and responded to each by explaining pertinent laws, regulations, and bank practices, and by providing relevant printed materials. Staff of the Federal Reserve System investigated and resolved complaints against state member banks, and referred those about creditors or businesses not under the Board's supervision to the appropriate enforcement agencies.

1. Consumer Complaints Received by the Federal Reserve System, by Subject, 1980

Subject	Number
Regulation B (Equal Credit Opportunity)	723
Regulation C (Home Mortgage Disclosure)	8
Regulation E (Electronic Fund Transfer)	83
Regulation Q (Interest on Deposits)	428
Regulation V (Securities Credit)	2
Regulation X (Securities Credit)	1
Regulation Z (Truth in Lending)	817
Regulation BB (Community Reinvestment)	4
Regulation CC (Consumer Credit Restraint)	104
Fair Credit Reporting	125
Fair Debt Collection Practices	87
Fair Housing Act	2
Transfer agents	17
Holder in due course	11
Unregulated bank practices	
Early warning	971
Miscellaneous	1,009
Other	113
TOTAL	4,505

1. Includes primarily miscellaneous complaints against business entities.

The Board's Division of Consumer and Community Affairs has instituted a new procedure for assessing the handling of consumer complaints by the Federal Reserve Banks: Reserve Banks regularly submit to the Board all correspondence connected with oral and written complaints that were resolved during a representative period; members of the Board staff review the actions of the Reserve Banks for timeliness, thoroughness, responsiveness, and adherence to System procedures; and the results of the review are then conveyed to the pertinent Reserve Bank. Because this program has been successful in further strengthening the complaint-handling systems of the Reserve Banks, the Board plans to continue it in 1981.

In 1980, staff members of the Board sent follow-up questionnaires to consumers whose complaints against state member banks were reviewed by the Board or by one of the Reserve Banks. A high proportion of the responses that were returned (60 percent) were favorable to the way the complaints were handled by the Federal Reserve System. About 72 percent reported that the explanation they received was clear and understandable; 72 percent, that they were satisfied with the promptness in handling; 93 percent, that they were treated courteously by Federal Reserve staff; and 84 percent, that they will contact the Federal Reserve again if they encounter another problem

2. Consumer Complaints Received by the Federal Reserve System, by Function and Resolution, 1980[1]

Type of resolution	Total complaints	Type of complaint					
		Loan functions		Deposit functions	Electronic fund transfers	Trust services	Other
		Discrimination	Other				
Total complaints	4,505	737	1,582	1,360	94	56	676
Total concerning state member banks	157	313	293	285	41	25	157
Insufficient information	11	6	7	9	0	3	11
Information furnished	31	65	39	71	7	3	31
Bank legally correct							
No accommodation	34	135	76	64	7	8	34
Accommodation made	8	40	43	22	3	0	8
Clerical error, corrected	24	16	53	51	12	1	24
Factual dispute	4	3	7	17	4	1	4
Bank violation, resolved	2	3	7	4	0	0	2
Possible bank violation, unresolved	2	1	4	2	0	0	2
Customer error	3	5	2	8	2	0	3
Pending							
December 31, 1979	38	39	55	37	6	9	38
January 31, 1980	5	10	12	10	0	0	5

[1] The terms used in this table that are not self-explanatory are defined as follows:

Insufficient information. The staff has been unable, after follow-up correspondence with the consumer, to obtain sufficient information to process the complaint.

Information furnished. When it is apparent that the complainant does not understand the law and that there has been no violation on the part of the bank, the Reserve System explains the law in question and provides the complainant with other pertinent information.

Bank legally correct, accommodation made. In these cases the bank appears to be legally correct, but chooses to make an accommodation.

Factual dispute. These cases involve factual disputes not resolvable by the Federal Reserve System and contractual disputes that can be resolved only by the courts. Consumers wishing to pursue the matter are advised to seek legal counsel or legal aid, or to use small claims courts.

Bank violation, resolved. In these cases a bank appears to have violated a law or regulation and has taken corrective measures voluntarily or as ordered by the Federal Reserve System.

Possible bank violation, unresolved. When a bank appears to have violated a law or regulation, customers are advised to seek civil remedy through the courts. Some cases that appear to involve criminal irregularity are referred to the appropriate law enforcement agency.

[2] Includes complaints against national banks and nonmember banks, which are referred for resolution to the appropriate agencies.

with a bank. Fifty-two percent found the resolution of the complaint acceptable. The proportion of those satisfied with the *outcome* is lower than the proportion of those satisfied with the *procedure* because many complaints involve factual disputes beyond the Federal Reserve's power to resolve, or involve bank practices that, however objectionable to the consumer, do not violate state or federal law.

Table 2 summarizes the nature and resolution of the complaints against state member banks received in 1980. The complaints are compiled according to bank functions—loans, deposits, electronic fund transfers, trusts, and other. About 54 percent concerned loan functions: 28 percent alleged discrimination and 26 percent dealt with credit-cost disclosures and other general loan functions. Approximately 26 percent involved interest on deposits and general practices concerning deposit accounts.

Consumer Education

An important part of the System's efforts in consumer affairs is its production and distribution of materials on consumer education. Both the Board and the Federal Reserve Banks are active in this area. The Federal Reserve Bank of Philadelphia, for example, has produced a film entitled "EFT: At Your Service," which is available to schools with accompanying classroom materials. The Federal Reserve Banks of Minneapolis and New York have also produced classroom materials on how to use credit services wisely and on other topics. In 1980 the Board published about 3 million copies of a consumer booklet entitled *Alice in Debitland,* explaining consumer protections under the Electronic Fund Transfer Act and Regulation E. The Board also incorporated information about the Electronic Fund Transfer Act in *The Consumer Handbook to Consumer Credit Protection Laws,* which, like *Alice in Debitland,* has proven quite popular.

Board staff participate in consumer education fairs, which offer opportunities to distribute information and answer questions about the various consumer and civil rights regulations. In 1980, the Board received an award for the excellence of its exhibit at the Consumer Education and Information Fair, which was sponsored by the District of Columbia's Office of Consumer Protection.

Rulewriting and the Federal Trade Commission

In August 1980, the Federal Trade Commission requested comment on a revision of its proposed Credit Practices Rule, which was first issued for comment in 1975. The proposed rule would prohibit the use of certain contractual terms that are sometimes included to aid in the collection of unpaid debts and would impose specific disclosure requirements on creditors. The current proposal incorporates refinements that meet some of the technical objections that were raised during hearings conducted by the Federal Trade Commission in 1977 and 1978. The comment period was extended to January 16, 1981.

In a letter to the Federal Trade Commission, the Board noted that several of the credit practices that would be prohibited by this proposal are already prohibited or curtailed in the majority of states by state law.[1] Also, although the Commission's own Bureau of Economics supported a few of the provisions in a memorandum issued in August 1980, it was critical of some provisions, it recommended substantial change before promulgation, and more important, it questioned the underlying basis of the rule. The Board also expressed concern about the growing burden of federal regulations. An excerpt from the letter appears on page 190.

Home Mortgage Disclosure

The Board of Governors of the Federal Reserve System implements the Home Mortgage Disclosure Act (HMDA) of 1975 through its Regulation C (Home Mortgage Disclosure). The act, which requires financial institutions that have offices in standard metropolitan statistical areas (SMSAs) to disclose publicly the location of their residential mortgage loans, expired in June 1980, in accordance with a sunset provision. On October 8, 1980, the HMDA was reinacted for a five-year period, with certain amendments.

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[1] Letter, dated December 22, 1980, from Chairman Volcker to the Honorable Michael Pertschuk, Chairman of the FTC.

The statutory amendments require (1) compilation and disclosure of mortgage loan data, beginning with 1980, on a calendar-year rather than fiscal-year basis; (2) itemization of data by census tract or county rather than by census tract or ZIP code; (3) use of a standard disclosure format, to be prescribed by the Board; (4) central data repositories in each SMSA; and (5) aggregation of mortgage loan data to cover all institutions in each SMSA.

On December 1, 1980, the Board amended Regulation C to implement calendar-year reporting for all institutions. Institutions that previously compiled data on a noncalendar fiscal-year basis are required to prepare a separate disclosure statement for any portion of 1979 not covered by their last fiscal-year statement. The Board established March 31, 1981, as the due date.

The requirement that disclosures be made by census tract or county was not implemented for 1980 data because of the difficulty in recompiling such material. Similarly, the use of a mandatory, Board-prescribed format for disclosure statements is being deferred until 1981. However, to facilitate the aggregation of mortgage loan data, institutions covered by the act were asked to compile and disclose their 1980 data in a manner consistent with the Board's form HMDA-1.

Because of the statutory requirement regarding the aggregation of data, these institutions will be subject to certain reporting requirements regarding loan data for 1980 and subsequent years. Financial institutions will be required to submit two copies of their HMDA statements to the regional office of the supervisory agency that regulates them—the Federal Reserve Banks, the Comptroller of the Currency, the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, or the National Credit Union Administration. State-chartered institutions that are exempt from the federal law will submit the statements required by state law to their state supervisory agency.

In February 1981, the Board published a proposed revision of Regulation C to implement the other statutory amendments. The Board, while attempting to weigh the costs of compliance of each regulatory provision against its benefits to the public, proposes to delete or reduce current requirements in some instances where the act allows. The Board proposes to modify others to ensure uniformity in collection and reporting aimed at facilitating the later aggregation of the data. At the same time, in keeping with the objectives of its Regulatory Improvement Project, the Board has redrafted Regulation C in a simplified, more concise form, which is approximately 30 percent shorter than the current version and which the Board believes will be easier to use. Among the principal changes that the Board proposes are the following:

1. An institution that is exempt and subsequently loses its exemption will be required to compile and report data starting with the calendar year *following* the loss of exemption rather than with the preceding year, as in the present regulation.

2. The category "total residential mortgage loans," which is the sum of the FHA-Farmers Home Administration-VA loan category and the conventional loan category, will no longer be required.

3. Geographic breakdowns will be given in terms of census tracts or counties; ZIP codes will no longer be used.

4. Disclosures at a branch office in the SMSA where the institution's home office is located will no longer be required.

5. Disclosures at other branch offices will be required only for data on property loans in the SMSA where the branch is located. However, disclosures at home offices and at central data repositories will contain complete data for all the SMSAs in which the institution has offices.

6. The availability of loan data will no longer have to be publicized.

Excerpt from letter, dated December 22, 1980, from Chairman Volcker to the Honorable Michael Pertschuk, Chairman of the FTC.

All of us are aware of the growing concern—if not the alarm—many feel about the constant stream of new regulations coming out of Washington. Any one of these regulations taken on its own may well seem reasonable, responsive to a genuine evil, and not very costly. But the effects of government regulation are cumulative, and adding one reasonable regulation on top of another can eventually create—and perhaps already has created—an unreasonable and unmanageable burden on the public.

The volume of rules and regulations has reached serious proportions. For example, financial institutions this past year have had to cope with important revisions to federal rules governing reserve requirements, the offering of financial services by Federal Reserve Banks, credit cost disclosures, electronic fund transfers, management interlocks, loans to insiders, and disclosure of mortgage lending practices. Other industries have no doubt faced a similar experience in coping with numerous new requirements and changes in procedures. This problem is felt most acutely by small businesses, which cannot afford counsel to influence, implement, or even monitor regulatory developments. Moreover, these businesses must determine whether federal law supersedes state law, which already extensively regulates the creditor remedies covered by the proposed rule. Throughout the nation a broad assessment of the aggregate effect of regulation on productivity and inflation—two of our country's most serious problems—is underway. With this as background, the question is not whether the rule may be responsive to some real abuses in some cases, but whether the need for the Credit Practices Rule is so compelling that it too should be added to the existing regulatory burdens.

This point seems particularly worth examining because of the long history of the Credit Practices Rule. In 1975, when it was first proposed, the degree of the regulatory problem was not fully appreciated and all the regulatory additions of the late 70's were still ahead of us. Recently the Congress has repeatedly expressed its concern with the burden of rulemaking. This spring, it passed the Truth in Lending Simplification and Reform Act expressing the clear intent to trim back some of the Truth in Lending requirements. An even more far-reaching expression of congressional concern is the Regulatory Flexibility Act, which requires a rigorous analysis of the burden, particularly on small businesses, of all new federal regulations. Moreover, since the Credit Practices Rule was first proposed, the Administration's Regulatory Council was conceived as a way to help cope with the national problem of overregulation and, of course, the President's executive order requiring regulatory reform projects in each agency was issued.

Given that many of the practices covered by the proposal are already widely regulated at the state level, given the opposition of the Commission's own economic staff to significant portions of the rule, and given the nearly universal consensus that a reassessment of the breadth of federal rulemaking is necessary, we do not believe that this is the appropriate time to launch a whole new set of federal credit rules. In light of these factors, we urge the Commission to reconsider issuance of the rule.

Implementation of the Monetary Control Act of 1980

On March 30, 1980, the Monetary Control Act of 1980 (Title I of Public Law 96-221) was enacted. Under the act, the Board is required to impose reserve requirements, solely for the purpose of conducting monetary policy, on all depository institutions that maintain transaction accounts or nonpersonal time deposits. The Board also is empowered to receive from all depository institutions, reports of assets and liabilities that it determines are necessary for monitoring and controlling the monetary aggregates. The act opens access to Federal Reserve credit and services to all depository institutions. Any depository institution that maintains transaction accounts or nonpersonal time deposits is entitled to the same borrowing privileges as member banks. The System is required to establish a fee schedule for its services and to make them available to all depository institutions beginning in September 1981.

The Board's initial actions on reserve requirements concerned the treatment of former member banks. Under the act, former member banks that left the System on or after July 1, 1979, are required to maintain full member bank reserve requirements without benefit of the phase-in allowed nonmember banks. The legislative history of the act indicated that the Board was to administer this provision flexibly with respect to the date of withdrawal from membership and in the granting of waivers for limited periods in the event the maintenance of reserve requirements created a hardship for individual former member banks. On April 23, the Board adopted a policy prescribing the procedure by which institutions could apply for such determinations.

On June 4 the Board requested public comment on its revised Regulation D to carry out the act's provisions on reserve requirements. More than 750 comments on all aspects of this proposal were received from depository institutions, trade associations, and other interested parties. After considering these public comments, the Board on August 15 announced final rules, which went into effect on November 13, 1980. In defining a transaction account, the Board struck a balance by not imposing reserve requirement costs on those accounts that permit occasional withdrawals by various convenient means, while applying such requirements to deposits that can be used generally for transactions purposes. In addition, the Board established a zero percent reserve requirement on time deposits with an original maturity of four years or more because such deposits are not vital to effective monetary policy.

Under the act, current reserve requirements for member banks are phased down to prescribed levels over four years while reserve requirements for nonmember depository institutions generally are phased in over eight years. The phasing in does not apply to any other category of deposits or accounts that are first authorized by federal law after April 1, 1980. As a result, negotiable order of withdrawal (NOW) accounts issued by institutions outside New England, New York, and New Jersey are immediately subject to full reserve requirements. Depository institutions outside those eight states will be required to maintain full reserve requirements on NOW account balances without any phase-in. However, the act provides a phase-in of reserve requirements for automatic transfer accounts (ATS), which can be offered by commercial banks and which are similar to NOW accounts.

After consultation with the leadership of the Senate and House Banking Committees, the Board delayed implementation of the regulation until November 13 to afford institutions and the Federal Reserve time to make the necessary operational modifications. In addition, because of the number of changes that are required by the act, the Board further delayed implementation for nonmember institutions with deposits of less than $15 million. Nonmember depository institutions that had less than $2 million in deposits as of December 31, 1979, will not become subject to reserve requirements until May 1981 at the earliest. These 17,000 institutions account for 43 percent of the institutions in the country but hold only 0.4 percent of the total deposits. To ease the burden of compliance, depository institutions of $2 million to $15 million in deposits are subject only to quarterly, rather than weekly, reserve maintenance and reporting, beginning in January 1981. These 10,000 institutions account for 25 percent of the depository institutions in the country and hold less than 4 percent of the total deposits. While these actions will reduce the reporting and reserve management burdens temporarily for very small institutions that lack staff resources, they may encounter difficulties in the future in preparing reports and in managing their reserve positions.

The Board also adopted rules to implement the reserve passthrough provision of the act and issued an interpretation concerning the bankers' bank exemption from reserve requirements.

On the date of enactment of the Monetary Control Act, the Board issued a statement that it would consider requests for discount window assistance from nonmember depository institutions on a case-by-case basis until arrangements for formalizing access to the discount window were implemented. On June 10, proposals for such access were published for public comment, and a revised Regulation A—Extension of Credit by Federal Reserve Banks (12 C.F.R. Part 204)—went into effect on September 1. In addition to short-term adjustment credit, Federal Reserve assistance is available to accommodate the needs of depository institutions that may be experiencing difficulties adjusting to changing money market conditions over a longer period, particularly at times of deposit disintermediation, as provided in the act.

Under the Board's rules, depository institutions are expected to make full use of other reasonably available sources of credit, including special-industry lenders such as the Federal Home Loan Banks, the National Credit Union Administration's Central Liquidity Facility, and corporate central credit unions before turning to the discount window for assistance. This rule was adopted to ensure that discount window credit does not interfere with the credit programs that are available from other lenders; this objective was expressed in comments received from the Federal Home Loan Bank Board and the National Credit Union Administration. The Federal Reserve Board believes that this policy is consistent with the fundamental purposes of the discount window and fulfills congressional intent with respect to institutions with longer-term assets; at the same time it does not interfere with the credit programs established by the special-industry lenders.

Under the act, the Board is required to publish for comment pricing principles and a proposed schedule of fees for Federal Reserve services. On August 28, 1980, the Board announced such a proposed schedule and the principles that underlie them. The Board received more than 230 comments from the public, primarily from depository institutions and from financial institution trade groups. In light of these comments, the Board considered its pricing proposals at public meetings held on December 10 and December 12, 1980, and formally announced its decisions on December 31.[1]

The act specifies that fees must be set for the following services: (1) currency and coin; (2) clearing and collection of checks; (3) wire transfer of funds; (4) automated clearinghouse (ACH); (5) settlement; (6) securities safekeeping; (7) noncash collection; (8) Federal Reserve float; and (9) any new services that the Federal Reserve System offers.

The System began offering priced services—for wire transfer and net settlement—in January 1981, consistent with the desire of the Congress that the benefits of System services be provided to all depository institutions as soon as operationally possible. Although the act does not require the Board to begin pricing services until September 1981, pricing other than for float, is scheduled to begin in January 1981 and will be fully implemented by January 1, 1982. The following schedule was adopted for imposing service fees and for providing nonmembers access to services:

Type of service	Effective date
Wire transfer	January 29, 1981
Net settlement	January 29, 1981
Check clearing and collection	August 3, 1981 [1]
Automated clearinghouse	August 3, 1981
Purchase, sale, safekeeping, and transfer of securities	October 1981 [2]
Noncash collection	October 1981 [2]
Currency and coin	January 1982 [2]

1. In view of the December 31, 1980, effective date for negotiable order of withdrawal (NOW) accounts for all depository institutions and in order to limit the impact of delaying nonmember access to check-collection services, the Board has decided to authorize access to current regional check processing center (RCPC) arrangements without charge to all nonmember depository institutions. Nonmember commercial banks currently are permitted to deposit local items in RCPCs.

2. Actual implementation dates will be announced at the time final fee schedules are published.

At its December 1980 meetings, the Board also decided that future fee schedules will be based on estimated costs for the period in which they are effective, while developmental costs may be spread (for fee-setting purposes) over the expected useful life of the project; various means (such as peak-load pricing) may be used to improve service efficiency. The Board also announced a plan to eliminate Federal Reserve float over a two-year period, primarily by improving operations. The remainder will be priced.

In view of the significant changes

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[1] See "Record of Policy Actions of Board of Governors," p. 79.

that depository institutions are encountering as a result of the Monetary Control Act, the Federal Reserve has made efforts to consult with all sectors of the financial community. For example, other federal financial institution regulatory agencies and industry trade groups were consulted in developing regulations to apply to institutions with which the Federal Reserve has not had much experience. The Federal Reserve Banks conducted many meetings at the local level to discuss the new regulations and pricing proposals in order to smooth the transition of depository institutions and the Federal Reserve System to the new environment resulting from the act. In addition, the Board established a Thrift Institutions Advisory Council to provide such institutions a forum for consulting with the Board, similar to the statutory Federal Advisory Council.

Legislative Recommendations

The Board of Governors has made the following recommendations for legislation to the Congress of the United States.

Amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978

The Board has recommended a number of amendments to the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA) to clarify certain of its provisions, to ease requirements that are unnecessarily burdensome, to correct procedural problems, and to contribute to the efficient enforcement of the act. The Board's recommendations for 1980 comprise the following major elements:

- Eliminate the dollar limitations of section 22(g) of the Federal Reserve Act on a member bank's loans to its executive officers for the purchase of a home or education of children. The statutory limitations are burdensome and unnecessary in view of other prohibitions of the FIRA regarding preferential lending to bank insiders, including executive officers.
- Eliminate the requirement contained in section 22(g) of the Federal Reserve Act that a member bank file a quarterly report on loans to executive officers. This reporting requirement is duplicative of the reporting provisions of the FIRA, which require annual reports on such loans.
- Amend section 22(h) of the Federal Reserve Act to require the prior approval of the board of directors, rather than a majority of the entire board of directors, of loans aggregating more than $25,000 to executive officers and other insiders. The suggested amendment would permit the board of directors to delegate the authority to approve such loans to a loan or executive committee of board members and would simplify the cumbersome procedure now required.
- Amend the civil money-penalty provisions of the Federal Reserve Act and the Bank Holding Company Act to confirm the authority of the Board to compromise, remit, or modify any penalty. The suggested authority is comparable to that explicitly granted to the Comptroller of the Currency by the FIRA.
- Amend section 18(j)(2) of the Federal Deposit Insurance Act to exclude a foreign bank that maintains a branch in the United States from coverage by section 22(h) of the Federal Reserve Act relating to extensions of credit to executive officers and insiders. The suggested exclusion is consistent with the exemption from section 23A of the Federal Reserve Act for foreign banks under the International Banking Act of 1978.

Financial Transactions with Affiliates

During 1976 and 1977 the Board conducted a major review of section 23A of the Federal Reserve Act. Section 23A is designed to protect member banks from abuse by restricting non-arm's-length financial transactions between these banks and affiliated companies. The Board's review of this statute was prompted in part by the discovery that several relatively large banks had been adversely affected by transactions with their affiliates.

One of the Board's major conclusions is that bank transactions with affiliates within the statutory limits have not caused substantial instability in the banking system. At the same time, the Board finds some flaws in the present statute: (1) it is inordinately complex; (2) it contains some potentially troublesome loopholes; and (3) it appears to be unduly restrictive in several ways.

The Board has recommended amendments to section 23A to correct these flaws. Principal among its recommendations are those (1) to allow a holding company greater freedom to transfer funds among its sister subsidiary banks but to prohibit a bank from purchasing low-quality assets from a sister subsidiary bank; (2) to broaden the definition of "affiliate" to include real estate investment trusts and other financial organizations that are sponsored and advised by a banking organization; and (3) to expand the types of collateral permitted on bank loans and extensions of credit to affiliates while requiring that these new types of collateral have a high value relative to the loan.

Expansion of Class C Directors

The Board has submitted to the Congress draft legislation to increase the number of Class C directors at each Federal Reserve Bank from three to five. The proposal aims to diversify further the backgrounds and interests represented on the Reserve Banks' boards of directors as a way of accomplishing one of the objectives of the Federal Reserve Reform Act of 1977. That act provides for the representation of the interests of consumers, labor, and services, in addition to agriculture, commerce, and industry, on the boards of the Reserve Banks.

Authority for Bank Holding Companies to Acquire Banks across State Lines in Emergency and Failing-Bank Situations

The Board recommends that the Congress give the Federal Reserve authority in certain emergency and failing-bank situations to approve the acquisition by an out-of-state bank holding company of a large bank that is in severe financial difficulty. The purpose of the legislation is to avoid an adverse potential impact when the failing bank is one of the largest in the state and the public interest would be served best by such an acquisition. Existing law permits a foreign bank, but not an out-of-state U.S. banking institution, to acquire the failing bank.

The authority would be limited to cases involving a bank that had assets in excess of $1.5 billion or that was one of the three largest in the state. The authority would be used only in cases in which few or no purchasers could be found within the state and in which the size or other special characteristics of the problem bank and the probability of widespread financial effects of its failure warrant an exception to the general restrictions on out-of-state bank acquisitions by a bank holding company.

Amendments to the International Banking Act

The International Banking Act of 1978 (IBA) required the Board to report to the House and Senate Banking Committees within two years of the date of enactment its recommendations to improve the implementation of the act. The IBA provides a federal regulatory framework governing the operations of foreign banks within the United States and also contains statutory provisions governing the organization and operations of Edge corporations. The Board has submitted its report to the Congress recommending that the IBA be amended in these ways:

- To authorize access for Edge corporations to the Federal Reserve discount window without requiring them to become members of the Federal Reserve System.
- To authorize the Board to permit majority ownership of Edge corporations by a U.S. bank that is controlled by foreign individuals.
- To eliminate the statutory limitation on member-bank investments in Edge corporations and authorize the Board to control aggregate and individual investments in Edge corporations.
- To authorize the Board to impose reserve requirements on all foreign banking institutions in the United States, including commercial lending companies and agencies of foreign banks with consolidated worldwide assets of less than $1 billion.
- To amend the Bank Holding Company Act in such a way as to effectively prohibit bank holding companies from acquiring by merger additional banks outside their principal state of banking operations, and to clarify the intent of the Congress under section 5 of the IBA with respect to a change in home state.
- To clarify the provisions of section 2(h) of the Bank Holding Company Act, as amended by the IBA, to (1) assure that the requirements for U.S. nonbanking activities are applicable to direct offices as well as to subsidiaries, and (2) assure that foreign banking organizations cannot conduct U.S. financial operations of the kinds not permissible for domestic bank holding companies.
- To permit the banking agencies to afford confidential treatment to information obtained from foreign banking organizations that is not disclosed, either by law or custom, in their home countries.
- To authorize the banking agencies to exchange examination and other supervisory information with foreign banking authorities about banks and bank holding companies under suitable agreements to maintain confidentiality of that information.

Litigation

During 1980 the Board of Governors was named in 33 lawsuits, compared with 22 in 1979. Of the actions filed in 1980, 9 raised questions under the Bank Holding Company Act, compared with 16 in 1979. As of December 31, 1980, 33 cases were pending, 11 of which involve the Bank Holding Company Act. A brief description of each of these cases and of those disposed of in 1980 follows.

Bank Holding Companies—Antitrust Action

In 1980 the U.S. Department of Justice filed no challenges under the antitrust laws of the United States to acquisitions by registered bank holding companies or to bank mergers that had been approved previously by the Board, and no such cases are pending from previous years.

Bank Holding Companies—Review of Board Actions

In *Investment Company Institute* v. *Board of Governors,* No. 77-1862 (D.C. Cir., filed September 23, 1977), petitioner sought judicial review of a Board order, dated August 31, 1977 (*Federal Reserve Bulletin,* volume 63, September 1977, page 856), denying its petition for reconsideration and rescission of a portion of the Board's January 1972 amendment to Regulation Y (*Federal Register,* volume 37, 1972, page 1463). Petitioner challenged the validity, under the Glass-Steagall Act, of the Board's amendment, which permits bank holding companies to act as investment advisers to, or sponsors of, an investment company that is registered under the Investment Company Act of 1940. The court, on March 30, 1979, overturned the Board's amendment (606 F.2d 1004). The Board applied for and was granted certiorari by the U.S. Supreme Court on February 19, 1980 (444 U.S. 1070). Oral argument was heard by the Court on October 15, 1980.

In *Florida Association of Insurance Agents, Inc.* v. *Board of Governors,* Nos. 75-3151 to 3153 (5th Cir., filed August 12, 1975), petitioner sought judicial review of three Board orders (*Federal Register,* volume 40, 1975, pages 30869, 30872, 30876) approving the applications of four bank holding companies to engage in certain insurance agency activities in Florida to the extent permitted by state law. On March 19, 1979, the court remanded the cases to the Board for further consideration (591 F.2d 334). On January 11, 1980, the Board issued an order approving the application of Chase Manhattan to engage de novo through its subsidiary, Housing Investment Corporation of Florida, in certain insurance agency activities pursuant to section 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1841 et seq.). The other applications were withdrawn by the applicants.

In *Memphis Trust Company* v. *Board of Governors,* No. C76-64 (W.D. Tenn., filed February 19, 1976), plaintiff requested the court to set aside the Board's order of April 10, 1975 (*Federal Reserve Bulletin,* volume 61, May 1975, page 327), denying plaintiff's application to acquire

Home Owners Savings and Loan Association, Collierville, Tennessee. In a decision on June 4, 1976, the court held that plaintiff's application had been approved by operation of law because the Board had not acted on it within 91 days after the submission of the complete record to the Board. The district court further held that it had jurisdiction over plaintiff's suit.

The Board appealed the decision to the U.S. Court of Appeals for the Sixth Circuit (No. 76-2183). On September 22, 1978, the circuit court held that the district court lacked subject-matter jurisdiction, reversed the district court, and remanded the case for dismissal without prejudice to petitioner's right to request the Board to reconsider its order of April 10, 1975 (584 F.2d 921).

Memphis Trust then petitioned the Board accordingly and was denied reconsideration by the Board's order of April 25, 1979. Memphis Trust petitioned for review of this order in the U.S. Court of Appeals for the Sixth Circuit (79-3350), claiming that its original application was approved by operation of law and alleging that the Board had not acted on the application within 91 days after the submission of the complete record to the Board. The court affirmed the Board's order of February 14, 1980.

In *Vickars-Henry Corporation* v. *Board of Governors,* No. 77-3890 (9th Cir., filed December 13, 1977), petitioner challenged a Board determination, dated November 15, 1977, that petitioner is not a bank holding company for purposes of the Bank Holding Company Tax Act of 1976. On October 6, 1980, the court affirmed the Board's order (630 F.2d 629).

In *Security Bancorp et al.* v. *Board of Governors,* Nos. 78-1581 and 78-2031 (9th Cir., filed March 17 and May 12, 1978), petitioners challenged the Board's action in denying Security Bancorp's application to become a bank holding company through the acquisition of Security National Bank, Walnut Creek, California *(Federal Reserve Bulletin,* volume 64, May 1978, page 405). On October 27, 1980, the court issued an opinion ordering the Board to approve the application (631 F.2d 146). On December 24, 1980, the Board filed a petition for a rehearing en banc.

In *Mid-Nebraska Bancshares, Inc.* v. *Board of Governors,* No. 78-1658 (D.C. Cir., filed July 14, 1978), the petitioner sought judicial review of a Board order, dated June 16, 1978 *(Federal Reserve Bulletin,* volume 64, July 1978, page 589), denying the application by Mid-Nebraska Bancshares, Inc., Ord, Nebraska, to become a bank holding company through the acquisition of Nebraska State Bank, Ord, Nebraska. Petitioner claimed that the Board's order was not supported by substantial evidence and exceeded the Board's authority under the Bank Holding Company Act. On February 19, 1980, the court affirmed the Board's order (627 F.2d 266), and on March 3, 1980, denied the petition of Mid-Nebraska Bancshares for a rehearing.

In *Independent Insurance Agents of America, Inc., et al.* v. *Board of Governors et al.,* Nos. 79-1280, 1398, 1471 (D.C. Cir., filed March 14, April 20, and May 9, 1979), petitioners challenged orders of the Federal Reserve Banks of New York, Kansas City, and Cleveland approving the applications of First National State Bancorporation, Newark, New Jersey, New Mexico Bancorporation, Inc., Santa Fe, New Mexico, and

Pittsburgh National Corporation, Pittsburgh, Pennsylvania respectively, to engage de novo in certain property and casualty insurance agency activities. Petitioners claimed that the orders were not based on substantial evidence, that petitioners were unlawfully denied hearings on the applications, and that the orders violated the Administrative Procedure Act and the Board's procedural regulations. On April 21, 1980, the court affirmed the Board's orders without opinion. Petitioners then filed a petition for rehearing, which was denied on June 10, 1980. On January 12, 1981, the U.S. Supreme Court denied a petition for a writ of certiorari, which had been filed by petitioners.

In *Credit and Commerce American Investments, B.V., et al.* v. *Board of Governors et al.*, No. 79-1294 (D.C. Cir., filed March 16, 1979), petitioners challenged a Board order (*Federal Reserve Bulletin,* volume 65, March 1979, page 254) dismissing petitioners' application to acquire Financial General Bankshares, Inc., Washington, D.C. The Board found that it was precluded from approving the application because the proposed transaction would violate Maryland law. The court dismissed the case on December 12, 1980, pursuant to stipulation by all parties.

In *Jackson et al.* v. *Board of Governors,* No. 79-2171 (5th Cir., filed May 14, 1979), petitioners challenged a Board order dated May 2, 1979 (*Federal Reserve Bulletin,* volume 65, June 1979, page 500), approving the application of Texas American Bancshares, Inc., Fort Worth, Texas, to acquire additional shares of Riverside State Bank, Fort Worth, Texas. Petitioners alleged that Texas American Bancshares engaged in discriminatory hiring and promotion practices and claimed that the Board should have denied the application for this reason. On February 8, 1980, the court affirmed the Board's order.

In *Connecticut Bankers Association et al.* v. *Board of Governors,* No. 79-1554 (D.C. Cir., filed May 30, 1979), petitioners challenged the Board's order (*Federal Reserve Bulletin,* volume 65, June 1979, page 506) approving the application by Citicorp, New York, New York, to engage de novo, through a subsidiary in Westport, Connecticut, in the activities of second-mortgage lending and the sale of credit-related insurance. Petitioners argued that the Board was in error in denying them a hearing on the application. On February 8, 1980, the court affirmed the Board's decision to deny a hearing on the issues of branching and undue concentration, and remanded the case to the Board for a determination on the issue of voluntary tie-ins (627 F.2d 245).

In *County National Bancorporation et al.* v. *Board of Governors,* No. 79-1783 (8th Cir., filed September 18, 1979), petitioners challenged the Board's order of August 27, 1979 (*Federal Reserve Bulletin,* volume 65, September 1979, page 763), denying petitioners' application to acquire TG Bancshares Co., St. Louis, Missouri, a multibank holding company. Petitioners allege that the Board relied upon an improper standard in denying the application.

On September 3, 1980, the court held that the Board was without authority to deny approval to a bank holding company application to acquire a bank under section 3 of the Bank Holding Company Act for anticompetitive effects unless these effects amounted to a violation of the antitrust laws. The Board was granted a rehearing en banc on October 10, 1980. Oral argument was heard on December 9, 1980.

In *Boggs et al.* v. *Board of Governors*, No. 79-1891 (8th Cir., filed October 19, 1979), petitioners challenged the Board's order of September 21, 1979 (*Federal Reserve Bulletin*, volume 65, October 1979, page 871), approving the application of Missouri Country Bancshares, Inc., Liberal, Missouri, to acquire Bank of Raymondville, Raymondville, Missouri. The court granted petitioners' motion to dismiss on January 31, 1980.

In *Independent Bank Corporation* v. *Board of Governors*, No. 79-3652 (6th Cir., filed October 22, 1979), petitioner challenged the Board's order of September 21, 1979 (*Federal Reserve Bulletin*, volume 65, October 1979, page 867), denying petitioner's application to acquire The Old State Bank of Fremont, Fremont, Michigan. Petitioner claimed that the Board's order was not supported by substantial evidence. On August 20, 1980, the court granted petitioner's motion to dismiss the case.

In *American Trust Company of Hawaii et al.* v. *Board of Governors*, No. 80-1034 (D.C. Cir., filed January 11, 1980), petitioners sought judicial review of the Board's order dated December 10, 1979 (*Federal Reserve Bulletin*, volume 66, January 1980, page 66), approving the acquisition of Bishop Investment Corp., Honolulu, Hawaii, by Crocker National Corporation. On April 30, 1980, American Trust filed a stipulation of dismissal.

In *Mercantile Texas Corporation* v. *Board of Governors*, No. 80-1528 (5th Cir., filed May 15, 1980), petitioner requested that the court review a Board order (*Federal Reserve Bulletin*, volume 66, May 1980, page 423) denying petitioner's application to acquire Pan National Group, Inc., El Paso, Texas. Petitioner claims that the Board's order is not supported by substantial evidence. Oral argument was heard by the court on October 6, 1980.

In *Martin-Trigona* v. *Board of Governors of the Federal Reserve System*, No. 80-1739 (D.C. Cir., filed July 2, 1980), petitioner challenged a Board order of June 3, 1980 (*Federal Reserve Bulletin*, volume 66, July 1980, page 587), approving an application by Citicorp to retain Citicorp Homeowners, Inc., Des Peres, Missouri. On December 23, 1980, the Board moved to dismiss for petitioner's failure to file his brief in a timely fashion.

In *Republic of Texas Corporation* v. *Board of Governors*, No. 80-1985 (5th Cir., filed September 11, 1980), petitioner challenged a Board order of August 20, 1980 (*Federal Reserve Bulletin*, volume 66, September 1980, page 787), denying petitioner's application to acquire the Citizens National Bank of Waco, Waco, Texas. Petitioner claims that the application should be granted by operation of law because of the Board's alleged failure to act within 91 days of receipt of the application. Petitioner also claims that the Board's order was not supported by substantial evidence.

In *Independent Insurance Agents of America, Inc., and Independent Insurance Agents of Virginia* v. *Board of Governors*, No. 80-1611 (4th Cir., filed September 15, 1980), petitioners seek review of a Board order dated July 24, 1980 (*Federal Reserve Bulletin*, volume 66, August 1980, page 668), approving the application of Virginia National Bancshares, Inc., Norfolk, Virginia, to engage in the sale of credit-related property and casualty insurance. Petitioners claim that the Board's action was not supported by substantial evidence and that approval cannot reasonably be expected to produce benefits to the public that outweigh the adverse effects. Petitioners also claim that the Board's denial of their request for a hearing was unlawful.

In *Independent Insurance Agents of America, Inc., and Independent Insurance Agents of Missouri* v. *Board of Governors,* No. 80–1879 (8th Cir., filed September 19, 1980), petitioners seek review of a Board order dated August 22, 1980 (*Federal Reserve Bulletin,* volume 66, September 1980, page 799), approving the application of Mercantile Bancorporation, St. Louis, Missouri, to engage in the sale of credit-related property and casualty insurance. Petitioners claim that the Board's action was not supported by substantial evidence and that approval cannot reasonably be expected to produce benefits to the public that outweigh the adverse effects. Petitioners also claim that the Board's denial of their request for a hearing was unlawful.

In *Welch Bancshares, Inc.* v. *Board of Governors,* No. 80–1971 (10th Cir., filed September 16, 1980), petitioner sought review of a Board order dated August 19, 1980 (*Federal Reserve Bulletin,* volume 66, September 1980, page 789), denying petitioner's application to acquire Welsh State Bank of Welsh, Welsh, Oklahoma. On October 20, 1980, the court dismissed the case upon petitioner's motion.

In *Wilshire Oil Company of Texas* v. *Board of Governors,* No. 80–2568 (D.C. Cir., filed December 24, 1980), petitioner sought judicial review of a Board determination of November 17, 1980, that petitioner continued to be a bank holding company subject to the Board's jurisdiction under the Bank Holding Company Act, notwithstanding the fact that petitioner's subsidiary bank has reserved the right to require 14 days advance notice of withdrawal from its demand deposit accounts.

In *Wilshire Oil Company of Texas* v. *Board of Governors et al.,* No. 80-4156 (D. N.J., filed December 31, 1980), plaintiff seeks a declaratory judgment that its subsidiary bank is not a bank within the meaning of the Bank Holding Company Act and also injunctive relief against the cease-and-desist and civil-money-penalty proceedings brought by the Board against Wilshire and its directors for failure to divest its nonbanking assets and activities, as required by the Bank Holding Company Act.

Other Litigation Involving Challenges to Board Procedures and Regulations

In a case related to the failure of the United States National Bank, San Diego, California, *Roberts Farms, Inc.* v. *Comptroller of the Currency et al.,* No. 75-0268 (S.D. Cal., filed November 20, 1975), plaintiff sought damages on the grounds that the Federal bank regulatory agencies negligently supervised the bank. The case has been stayed indefinitely pending the outcome of similar suits.

In *Merrill* v. *Federal Open Market Committee et al.,* No. 75-0736 (D.D.C., filed May 8, 1975), plaintiff brought suit under the Freedom of Information Act to compel the Committee to disclose immediately upon adoption its domestic policy directives and also the memoranda of discussion of its meetings. By order of March 9, 1976 (413 F. Supp. 494), the court ruled that the Committee's domestic policy directives must be made available to the public upon adoption and that factual portions of the memoranda of discussion that could be reasonably segregated must also be disclosed. The Committee appealed the ruling on the domestic policy directive (No. 76-1379) to the U.S. Court of Appeals for the District of Columbia. That court, on November 10, 1977 (565 F.2d 778), affirmed the ruling of the district court that the Committee's domestic policy directives must be publicly released upon their adoption by the Committee. The Board then filed a petition for a writ of certiorari with the U.S. Supreme Court.

On June 28, 1979, the Supreme Court vacated the decision of the court of appeals and remanded the case to the district court for consideration of whether immediate disclosure of the Committee's domestic policy directives would significantly harm the U.S. government's monetary policy functions or its commercial interests, in which case the Committee's present policy of delaying public disclosure of each directive until a new directive is in force would be consistent with the Freedom of Information Act (443 U.S. 340). Both parties moved for summary judgment; and oral argument was held on January 8, 1981. The Court subsequently directed the parties to submit further pleadings.

In *Hansen* v. *The National Commission on Observance of International Women's Year et al.*, No. 77-1158 (D. Ida., filed September 21, 1977), plaintiff, a U.S. congressman, brought suit against the National Commission on Observance of International Women's Year and numerous federal agencies and officials, including the Chairman of the Board of Governors, to enjoin any expenditure of federal funds in connection with the activities of the commission. The court granted defendants' motion to dismiss for lack of standing on February 2, 1978, and the plaintiff appealed the case to the U.S. Court of Appeals for the Ninth Circuit. The Court of Appeals affirmed the district court judgment dismissing the suit on September 18, 1980 (No. 78-2210).

In *Emch* v. *United States et al.*, No. 77-C-677 (E.D. Wis., filed November 18, 1977), plaintiff, a shareholder of the parent company of the American City Bank & Trust Co., N.A., Milwaukee, Wisconsin, a failed bank, alleged that the Board and other bank regulatory agencies were negligent in supervising and examining the bank. On May 8, 1979, the court dismissed the case without prejudice and on August 15, 1979, denied plaintiff's motion to file an amended complaint. Plaintiff has filed an appeal.

Three cases were pending in 1980 involving challenges to the Board's employment practices. On June 29, 1977, the complaint in *Hilliard* v. *Burns*, No. 76-1655 (D.D.C., filed December 8, 1976), was dismissed. Plaintiff has filed a notice of appeal from that decision (D.C. Cir. No. 77-1700), and the case is pending. In *Hadigian* v. *Board of Governors*, No. 76-1694 (D.D.C., filed September 17, 1976), the court granted, on December 6, 1978, the Board's motion for summary judgment. The court held that the Board's action was neither arbitrary nor capricious (463 F. Supp. 437). On January 29, 1980, the circuit court affirmed the district court's decision (612 F.2d 586). In *Wiley* v. *United States et al.*, No. 79-2374 (D.D.C., filed September 7, 1979), the court granted the defendants' motion for summary judgment on June 30, 1980.

In *Bollow* v. *Board of Governors et al.*, No. C76-977 (N.D. Ca., filed May 12, 1976), plaintiff, a former employee of the Federal Reserve Bank of San Francisco, seeks damages against the Board and the Reserve Bank in connection with the termination of plaintiff's employment at the Reserve Bank. On September 23, 1977, the court granted the Board's motion for summary judgment. On November 4, 1977, plaintiff appealed the action. The case is pending before the Court of Appeals for the Ninth Circuit (No. 79-4414).

In *Independent Bankers Association of Texas* v. *First National Bank in Dallas et al.*, No. CA 3-78-0918-F (N.D. Tex., filed July 26, 1978), the plaintiff alleged that the Board and the Federal Reserve Bank of Dallas are unlawfully permitting the collection of share drafts drawn on federal credit unions. On July 25, 1980, the court dismissed the case on plaintiff's motion.

In *Cundari* v. *United States,* No. 215-79C (Ct. Cl., filed May 17, 1979), plaintiff alleged that the monetary policies of the United States caused inflation that eroded the value of the plaintiff's assets and thus deprived him of his property without due process. He also alleged that U.S. monetary policy violated his right to equal protection because, as a retiree on a fixed income, he is more severely affected by inflation than employed persons. Plaintiff sought $500,000 in damages and asked that the court enjoin defendants from pursuing inflationary policies. On May 2, 1980, the court granted the Board's motion for summary judgment.

In *Tangalos* v. *United States et al.*, No. 79C-1987 (N.D. Ill., filed May 16, 1979), plaintiff sought a declaration that a certain Treasury bill was his property and an injunction preventing the government from making payment on the bill to another person. On June 26, 1980, the court dismissed the case pursuant to plaintiff's stipulation.

In *Riegle* v. *Federal Open Market Committee et al.*, No. 79-1703 (D.D.C., filed July 2, 1979), plaintiff, a member of the U.S. Senate, sought to enjoin the presidents and first vice presidents of the Federal Reserve Banks from serving as members of the Federal Open Market Committee and to enjoin the Committee from permitting such service. Plaintiff alleged that the provisions of the Federal Reserve Act governing appointment of the Reserve Bank members of the Federal Open Market Committee violate the Appointments Clause of the Constitution, Article II, Section 2, Clause 2. On October 26, 1979, the court granted defendant's motion to dismiss for lack of standing; and on November 9, 1979, the court denied plaintiff's motion to alter that judgment. Plaintiff filed an appeal with the U.S. Court of Appeals for the District of Columbia Circuit on January 14, 1980.

In *Gregory et al.* v. *Board of Governors,* No. 79-1787 (D.D.C., filed July 27, 1979), plaintiffs sued under the Freedom of Information Act claiming that the Board had improperly withheld portions of memoranda containing staff advice and material derived from examination reports that concern the acquisition of a failed bank in which plaintiffs were shareholders. On March 3, 1980, the court partially granted and partially denied each of the cross motions for summary judgment. The court upheld the Board's position respecting the confidentiality of information derived from reports of examination and the confidentiality of advice given to the Board by its staff. The court ordered disclosure of the names of certain staff members who had written two staff memoranda to the Board, as well as general information regarding a particular commercial loan. The Board appealed the later ruling with the U.S. Court of Appeals for the District of Columbia Circuit (No. 80-1462).

In *American Bankers Association* v. *Board of Governors et al.*, No. 79-2066 (D.D.C., filed August 7, 1979), plaintiff sought a declaration that the guidelines (*Federal Register,* volume 44, January 4, 1979, page 1222) published by the financial institutions regulatory agencies for the enforcement of the Truth in Lending Act (12 U.S.C. 1601 et seq.) and Regulation Z (12 C.F.R. Part 226) are void; it also sought to enjoin the Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation from enforcing the guidelines. Plaintiff alleged that the agencies were not authorized to adopt or enforce such guidelines; and that their adoption was arbitrary and capricious, not according to proper administrative procedure, and in violation of the Truth in Lending Act. The court granted the defendants' motion to dismiss for lack of ripeness on February 29, 1980.

In *Gordon* v. *Board of Governors et al.*, No. 79-2893 (5th Cir., filed August 10, 1979), and *Gordon* v. *Board of Governors et al.*, No. C79-1427A (N.D. Ga., filed August 31, 1979), petitioner challenged the action of the Federal Reserve Bank of Atlanta in declining to investigate plaintiff's allegations of fraud by two national banks that acted as trustees for certain real estate syndications in which plaintiff apparently invested and lost money. The U.S. Court of Appeals for the Fifth Circuit dismissed the action on March 19, 1980, upon the Board's motion. Petitioner applied for and was denied certiorari by the U.S. Supreme Court on October 6, 1980 (49 U.S.L.W. 3247).

In the district court action, plaintiff asked the court to compel defendants to investigate his allegations. The Northern District of Georgia dismissed the case on June 19, 1980. Plaintiff appealed to the U.S. Court of Appeals for the Fifth Circuit (No. 80-7557) and filed an additional suit on the same basis in the U.S. District Court for the Northern District of Georgia (No. C80-1245A).

In *Gordon* v. *Board of Governors et al.*, Nos. C80-1362A and C80-1265A (M.D. Ga., filed July 25, and August 18, 1980, respectively), plaintiff brought suit under the Racketeer Influenced and Corrupt Organizations Act. Both of these cases were dismissed without prejudice in December 1980.

In *Securities Industry Association* v. *Board of Governors et al.*, Nos. 80-2730 and 80-2314 (D.D.C. and D.C. Cir. respectively, both filed October 24, 1980), the Securities Industry Association seeks review of the Board's statement of September 26, 1980, denying in part petitioner's request that the Board prohibit Bankers Trust Company, a state member bank, from selling third-party commercial paper. Both cases are pending.

In *Mid America Bancorporation, Inc., et al.* v. *Board of Governors*, No. 4-80 Civil 546 (D. Minn., filed October 31, 1980), plaintiffs requested an injunction against a temporary cease-and-desist order issued by the Board against plaintiffs on October 20, 1980, and against then-pending Board administrative proceedings on a Notice of Charges and a Notice of Assessment of Civil Money Penalty against plaintiffs. The district court granted the Board's motion for summary judgment on December 18, 1980. Plaintiffs appealed to the U.S. Court of Appeals for the Eighth Circuit (No. 80-2186) on December 19, 1980. On January 14, 1980, the court dismissed plaintiffs' appeal with prejudice.

In *Otero Savings & Loan Association* v. *Board of Governors et al.*, No. 80-1066 (D. Colo., filed August 15, 1980), plaintiff sought declaratory and injunctive relief, alleging that defendants exceeded their authority and acted arbitrarily in refusing to process plaintiff's drafts through the Federal Reserve clearing and collection system. On August 15, 1980, the district court issued a temporary restraining order and on September 3, 1980, a preliminary injunction. The defendant, the Federal Reserve Bank of Kansas City, appealed the injunction, and it is pending in the U.S. Court of Appeals for the Tenth Circuit.

In *Albert A. Rapoport* v. *Board of Governors et al.*, Nos. 80-0351 and 80-0468 (D.D.C., filed February 4 and February 14, 1980), plaintiff brought an individual action and a class action under the Federal Tort Claims Act for damages arising out of alleged negligence of defendants in overstating the money supply on October 6, 1979. On May 21, 1980, the court dismissed the plaintiff's individual action and, on May 23, 1980, dismissed plaintiff's class action.

In *Peter A. Lounsbury et al.* v. *Board of Governors et al.*, No. H.-80-184 (D. Conn., filed March 24, 1980), petitioners sought declaratory and injunctive relief against the fiscal and monetary policies of the U.S. federal government. On July 14, 1980, the court dismissed the case for lack of standing.

In *Ulysses S. Crockett, Jr.* v. *United States et al.*, No. 80-310-CIV-5 (E.D.N.C., filed April 4, 1980), plaintiff seeks to enjoin various aspects of the U.S. government's fiscal and monetary policy. The United States has filed a motion to dismiss.

In *Louis J. Roussel* v. *Board of Governors et al.*, No. 80-1079 (D.D.C. filed April 29, 1980), plaintiff sought declaratory and injunctive relief against the Board's order of June 11, 1975, removing Mr. Roussel from office. The court dismissed the case for lack of jurisdiction on October 27, 1980. On November 21, 1980, plaintiff filed a notice of appeal with the U.S. Court of Appeals for the District of Columbia Circuit (No. 80-2432).

In *Berkovitz et al.* v. *Government of Iran et al.*, No. C80-1197 (N.D. Cal., filed June 6, 1980), plaintiffs brought suit against the government of Iran for damages arising out of the murder of Martin Berkovitz, a U.S. citizen, and for imposition of a trust with respect to any assets of the government of Iran subject to the control of the United States. On September 19, 1980, the court entered a stipulated stay of all proceedings pending further order of the court, and scheduled a status conference for March 16, 1981.

In *John L. Lewis* v. *United States*,

No. 80-3093 DWW (C.D. Cal., filed July 15, 1980), plaintiff filed an action under the Federal Tort Claims Act seeking damages for injuries sustained in an automobile accident involving the Federal Reserve Bank of San Francisco. The case is pending.

In *A. G. Becker, Inc.* v. *Board of Governors,* No. 80-2175 (D.D.C., filed August 25, 1980), plaintiff seeks declaratory and injunctive relief, pursuant to the Government in the Sunshine Act, against the Board for failing to allow the public to attend Board meetings at which the Board considered a petition filed by plaintiff. In an opinion dated November 26, 1980, the court granted in substantial part the Board's motion for summary judgment, holding that the Board acted properly in closing the meetings to public observation but had failed to provide public notice of meetings at the earliest practicable time.

In *A. G. Becker, Inc.* v. *Board of Governors et al.,* No. 80-2614 and 80-2258 (D.D.C. and D.C. Cir. respectively, both filed October 14, 1980), plaintiff seeks review of the Board's statement of September 26, 1980, denying in part Becker's petition that the Board prohibit Bankers Trust Company, a state member bank, from selling third-party commercial paper. Both cases are pending.

In *Consumers Union of the United States, Inc.* v. *Board of Governors et al.,* No. 80-2176 (D.D.C., filed August 26, 1980), plaintiff sued for declaratory and injunctive relief under the Freedom of Information Act, seeking access to cease-and-desist orders and settlement agreements against banks for violations of the Equal Credit Opportunity and Truth in Lending Acts. The Board released copies of the subject orders and agreements after deleting information identifying financial institutions and third parties as well as information not relevant to the request. The court entered a consent order dismissing the suit on November 18, 1980.

In *William D. Bryan* v. *Board of Governors et al.,* No. C78-664V (W.D. Wash., filed September 12, 1980), plaintiff sought damages and injunctive and declaratory relief against the Board and others. Plaintiff asked the court inter alia to restrain the Federal Reserve System from dealing in U.S. government securities. On January 24, 1980, defendants filed a motion to dismiss, and on February 20, 1980, all parties filed a stipulation of dismissal without prejudice. However, the plaintiff filed an amended complaint for damages on October 12, 1980, and the Board countered with a second motion to dismiss on October 31, 1980.

In *Nebraska Bankers Association et al.* v. *Board of Governors et al.,* No. 80-6-257 (D. Neb., filed September 25, 1980), plaintiffs sought action for declaratory and injunctive relief against defendants' enforcement policy, contained in its policy guide, with respect to reimbursable violations of the Truth in Lending Act and Regulation Z. The defendants have moved to dismiss for lack of ripeness.

In *Thomas R. Waters and Edward Giles* v. *Board of Governors et al.,* No. 80-232 (D. Colo., filed February 21, 1980), plaintiffs sued under the Freedom of Information Act, claiming that the Board had improperly withheld certain documents. On August 13, 1980, plaintiffs filed a motion to amend their complaint, which eliminated the Board as a defendant.

In *Angela Belk* v. *Government of Iran et al.*, No. 80-6936 (D.S.C., filed April 14, 1980), plaintiff, the wife of William Belk, a hostage in Iran, sued the government of Iran for damages. Plaintiff also sought to have the Secretary of State, the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Comptroller of the Currency, and the Director of the Foreign Assets Control place all Iranian assets subject to the control of the United States in a trust account. On June 3, 1980, plaintiff filed a voluntary nonsuit, without prejudice.

In *Corbin* v. *United States*, No. 209-80 (Ct. Cl., filed May 5, 1980), plaintiff sought damages as a result of actions of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Bank of New York with respect to the failure of Franklin National Bank. On October 8, 1980, defendants filed a motion to dismiss or for summary judgment.

In *9 to 5 Organization for Women Office Workers* v. *Board of Governors*, No. 80-2905-C (D. Mass., filed December 30, 1980), plaintiff sued under the Freedom of Information Act, claiming that the Board unlawfully withheld information regarding a wage survey conducted by a consortium of employers in Massachusetts.

Legislation Enacted

Depository Institutions Deregulation and Monetary Control

Public Law 96-221, approved March 31, 1980, consists of nine titles.

Title I (Monetary Control Act) makes the following changes, among others, to facilitate the implementation of monetary policy:

1. Authorizes the Board of Governors of the Federal Reserve System to obtain, directly or indirectly, from all depository institutions, reports of their liabilities and assets that the Board determines are necessary or desirable for monitoring and controlling monetary and credit aggregates. For these purposes, the Board may classify depository institutions and impose different requirements on each class. The Board is to endeavor to avoid imposing unnecessary burdens on reporting institutions and duplicating other reporting requirements.

2. Changes reserve requirements, as follows:

(a) Reserve requirements are imposed on all depository institutions that maintain transaction accounts (including demand deposits, negotiable order of withdrawal (NOW) accounts, share draft accounts, savings deposits subject to automatic transfers, and any other account that the Board determines to be used to make payment to third parties) or nonpersonal time deposits, solely for the purpose of implementing monetary policy. A depository institution is an institution that is eligible to apply for federal deposit insurance. The reserve requirements, under regulations of the Board, are 3 percent against transaction accounts of $25 million or less; between 8 and 14 percent, with an initial ratio of 12 percent, against that portion of total transaction accounts in excess of $25 million (the $25 million base is subject to annual adjustments for the next succeeding calendar year, beginning in 1981, to reflect increases or decreases in total transaction accounts); 0 to 9 percent, with an initial ratio of 3 percent, against nonpersonal time deposits. Reserves on transaction accounts are to be uniformly applied to all depository institutions, but those on nonpersonal time deposits may vary according to maturity.

(b) If at least five members of the Board find that extraordinary circumstances require such action, the Board, after consultation with the Congress, may impose a reserve requirement at any ratio on any liability of depository institutions for periods of 180 days.

(c) A supplemental reserve requirement of not more than 4 percent of its total transaction accounts may be imposed on every depository institution, after consultation with the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration Board, upon the affirmative vote of at least five members of the Board. The supplemental reserve may be imposed only under these circumstances: its sole purpose is increasing reserves to a level essential for the conduct of monetary policy; it is not imposed to reduce the costs of basic reserve requirements; it is not imposed to increase the balances needed for clearing purposes; and at the time it is imposed, total basic reserves are not less than those that would be required if the initial ratios for basic reserves were in effect. Interest is to be paid on supplemental reserves at a rate not more than the rate earned on the System's securities portfolio.

(d) Foreign branches, subsidiaries, and international banking facilities of nonmember depository institutions are to maintain the same reserves required by the Board of such entities of member banks.

(e) Under transitional adjustment provisions, reserve requirements for nonmember depository institutions generally are to be phased in over an eight-year period, and changes in reserve requirements for member banks generally are to be phased in over a four-year period. Transitional adjustments are not applicable to any category of deposits or accounts first authorized pursuant to federal law in any state after April 1, 1980.

(f) Reserves may be maintained in balances at the Federal Reserve Bank of which the depository institution is a member or at which it maintains an account. Reserves of nonmember depository institutions may be held in a correspondent depository institution holding required reserves at a Federal Reserve Bank, in a Federal Home Loan Bank, or in the National Credit Union Administration Central Liquidity Facility if such reserves are passed through to a Federal Reserve Bank. By regulation identical for all depository institutions, the Board may authorize the use of vault cash to satisfy all or a portion of the required reserves. Reserves held by a depository institution may be used to satisfy state and federal liquidity requirements.

3. Entitles any depository institution holding transaction accounts or nonpersonal time deposits to the same discount and borrowing privileges as a member bank.

4. Opens access to Federal Reserve services to all depository institutions and requires the Board, by September 1, 1980, to publish for comment pricing principles and a proposed fee schedule covering the following services: currency and coin services of a nongovernmental nature, check clearing and collection, wire transfer, automated clearinghouse, settlement, securities safekeeping, and Federal Reserve float. The Board is to begin putting the fee schedule into effect by September 1, 1981.

5. Removes collateral requirements for Federal Reserve notes held in the vaults of the Federal Reserve Banks.

6. Expands the kinds of eligible collateral for Federal Reserve notes to include obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency of a foreign government, and any other assets that may be purchased by Federal Reserve Banks.

7. Permits a member bank to keep on deposit with any depository institution that is authorized to have access to the discount window a sum in excess of 10 percent of its own paid-up capital and surplus.

8. Abolishes the penalty rate on Federal Reserve advances to depository institutions that are secured by "ineligible" paper.

Title II (Depository Institutions Deregulation Act) is intended to provide for the orderly, complete phase-out of limitations on the maximum rates of interest and dividends that may be paid on deposits and accounts by depository institutions. It extends the authority to impose such limitations for six years, subject to standards designed to ensure a phaseout to market rates of interest. To accomplish these purposes Title II has the following provisions:

1. Establishes the Depository Institutions Deregulation Committee (Deregulation Committee) consisting of the Secretary of the Treasury and the Chairmen of the Board of Governors of the Federal Reserve System, of the Board of Directors of the Federal Deposit Insurance Corporation, of the Federal Home Loan Bank Board, and of the National Credit Union Administration Board, as voting members; and the Comptroller of the Currency as a nonvoting member.

2. Transfers to the Deregulation Committee the authorities in the Federal Reserve Act, the Federal Deposit Insurance Act, and the Federal Home Loan Bank Act to prescribe rules governing the payment of interest and dividends and the establishment of classes of deposits or accounts, and to administer the differential between ceiling rates for thrift institutions and for commercial banks on certain categories of deposits.

3. Directs the Deregulation Committee to exercise, by regulation, the authority vested in it (a) to provide for the orderly phaseout and elimination of the limitations on the maximum rates of interest and dividends that may be paid on deposits and accounts as rapidly as economic conditions warrant, and (b) to work toward providing all depositors with a market rate of return on their savings with due regard for the safety and soundness of depository institutions.

4. Requires the Deregulation Committee to vote, not later than September 30, 1981, on whether to increase limitations on the maximum rates applicable to passbook and similar savings accounts by at least ¼ of 1 percent, and also vote not later than March 31, 1983, 1984, 1985, and 1986, on whether to increase the limitations on the maximum rates applicable to all categories of deposits and accounts by at least ½ of 1 percent.

5. Authorizes the Deregulation Committee to set ceilings on all categories of deposits and accounts different from the targets and to create new categories not subject to limitations or with limitations set at market rates or by any other method.

6. Requires each member of the Deregulation Committee to make an annual report to the Congress on the economic viability of depository institutions that includes the following:

(a) An assessment of whether the removal of any differential between the rates paid by banks and those paid by thrift institutions will adversely affect the financing of housing or the viability of the thrift industry.

(b) Recommendations for measures to encourage savings, to provide for the equitable treatment of small savers, and to ensure a steady and adequate flow of funds to thrift institutions and the housing market.

(c) Findings concerning disintermediation of savings deposits from insured institutions to uninsured money market investments, which pay market rates to savers.

(d) Recommendations for legislative and administrative actions to maintain the economic viability of depository institutions.

7. As of March 31, 1986, repeals the authorities to impose interest rate ceilings on deposits, terminates all

authorities transferred to the Deregulation Committee, and terminates the Deregulation Committee.

Title III (Consumer Checking Account Equity Act) enacts the following provisions, among others:

1. Authorizes the continuation of authority (a) for banks to provide automatic transfer services, (b) for the establishment of remote service units by savings and loan associations, and (c) for the offering of share draft accounts by federally insured credit unions.

2. Effective December 31, 1980, extends nationwide the authority under federal law of depository institutions to offer NOW accounts. NOW accounts may consist solely of funds that are held entirely by one or more individuals or by an organization operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and not operated for profit.

3. Effective March 31, 1980, increases the insurance of accounts of federally insured banks, savings and loan associations, and credit unions to $100,000.

4. Increases the interest rate ceiling for loans from federal credit unions to 15 percent. Under certain circumstances, the National Credit Union Administration Board is given authority to establish higher interest ceilings for up to 18 months.

5. Permits the Federal Home Loan Bank Board to authorize the Federal Home Loan Banks to engage in certain collection and settlement functions in connection with instruments of members of any Federal Home Loan Bank or institutions eligible for membership. A Federal Home Loan Bank is to make reasonable charges for clearing services consistent with the principles set forth in the Federal Reserve Act for the pricing of services.

6. Permits the National Credit Union Administration Board to authorize the Central Liquidity Facility or its agent members to engage in the same collection and settlement functions authorized for the Federal Home Loan Banks.

Title IV (Powers of Thrift Institutions and Miscellaneous Provisions) has the following provisions, among others:

1. Provides various new investment authorities, under regulations of the Federal Home Loan Bank Board, for federally chartered savings and loan associations, including the following:

(a) The removal of any geographical lending restriction, a 90 percent loan-to-value limit in place of the existing $75,000 limit, and the elimination of the first-lien restrictions on residential real estate loans.

(b) Authority to invest up to 20 percent of assets in consumer loans, commercial paper, and corporate debt securities.

(c) Authority to invest in shares or certificates of open-end investment companies registered with the Securities and Exchange Commission if the company's portfolio is restricted to investments that savings and loan associations may make directly.

(d) Authority to offer credit cards.

(e) Authority to exercise trust and fiduciary powers.

2. Authorizes a state stock savings and loan association to convert to a federal stock charter if the association existed in stock form for at least four years preceding March 31, 1980.

3. Authorizes savings and loan associations to issue mutual capital certificates under the regulations

of the Federal Home Loan Bank Board.

4. Authorizes a federal mutual savings bank to make commercial, corporate, and business loans up to 5 percent of its assets if the loan is made in its home state or within 75 miles of its home office.

5. Authorizes a federal mutual savings bank to accept demand deposits in connection with a commercial, corporate, or business loan relationship.

6. Directs the President to establish an interagency task force consisting of the Secretary of the Treasury, the Secretary of Housing and Urban Development, and representatives of the Federal Home Loan Bank Board, the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the National Credit Union Administration Board. The task force is to conduct a study and to make recommendations by June 30, 1980, regarding the options available to provide balance to the asset-liability management problems inherent in the thrift portfolio structure, the options available to make thrift institutions more competitive, and the options available to federal agencies to assist thrift institutions in times of economic difficulty.

Title V (State Usury Laws) provides, in part, the following:

1. Preempts state usury limitations, subject to express reinstitution by state action from April 1, 1980, to April 1, 1983, on loans secured by a first lien on residential real property. Also, state restrictions on the rate or amount of interest that may be paid on deposits or accounts at federally insured depository institutions are similarly preempted. The Federal Home Loan Bank Board is given authority to issue rules and regulations and to publish interpretations governing these provisions.

2. Preempts state usury laws by permitting a lender to charge a rate not more than 5 percent above the Federal Reserve discount rate, including any surcharge thereon, subject to express reinstitution by state action, in the case of business or agricultural loans in the amount of $25,000 or more. Subsequently, Public Law 96-399, effective October 8, 1980, reduced the amount of business or agricultural loans that would be preempted to $1,000 and, retroactive to April 1, 1980, defined and clarified the terms for preemption of the usury rate on business and agricultural loans.

3. Preempts state usury ceilings to permit federally insured state banks, branches of foreign banks, insured savings and loan associations, insured credit unions, and small business investment companies to charge interest on loans at a rate not more than 1 percent above the basic Federal Reserve discount rate.

Title VI (Truth In Lending Simplification and Reform Act) includes the following provisions, among others:

1. Reduces the number and detail of Truth in Lending disclosures.

2. Separates the disclosures from other information in certain transactions.

3. Requires the use of brief explanations for key terms.

4. Requires the Board to issue model forms and clauses that, if used properly, insulate creditors from civil liability.

5. Authorizes the Board and other enforcement agencies to require reim-

bursement to consumers when the actual annual percentage rate or finance charge exceeds that shown on the disclosure statement.

6. Exempts agricultural credit from coverage under Truth in Lending.

7. Requires creditors to make good-faith estimates of all required disclosures within three business days of certain mortgage applications.

8. Simplifies, for small open-end creditors, the rules for identifying transactions on periodic billing statements.

9. Permits open-end creditors to send a summary of billing-error rights and obligations once rather than twice a year.

10. Modifies the application of the three-day right of rescission in certain mortgage transactions.

11. Directs the Board to compile and distribute on an experimental basis information concerning annual percentage rates for representative types of nonsale credit.

Title VII (Amendments to the National Banking Laws) makes a number of changes in the laws relating to national banks and the operations of the Comptroller of the Currency. The following amendments, among others, relate to the Federal Reserve System:

1. Permits the Board to extend the deadline for the divestiture of impermissible real estate interests under the Bank Holding Company Act from December 31, 1980, to December 31, 1982, after considering whether the company has made a good-faith effort to divest the real estate interests and whether the extension is necessary to avert substantial loss.

2. Amends the provision of the Bank Holding Company Act prohibiting acquisition of a bank outside the holding company's home state, to include, subject to certain limitations, until October 1, 1981, a trust company within the definition of a bank.

3. Amends the Bank Holding Company Act to prevent the Board from rejecting an application for the formation of a one-bank holding company solely because the transaction involves a bank stock loan of 25 years or less. This does not prohibit the Board from rejecting an application because other financial arrangements are unsatisfactory; and the Board is to consider transactions involving bank stock loans having a maturity of 12 years or more on a case-by-case basis, and not to approve any transaction if the Board believes it may jeopardize the safety or soundness of the bank.

Title VIII (Financial Regulation Simplification Act) reflects the concern of the Congress that regulations of the federal financial regulatory agencies often impose costly, duplicative, and unnecessary burdens on both financial institutions and consumers. It also reflects the belief that regulations should be simple and clearly written, achieve legislative goals effectively and efficiently, and not impose unnecessary costs and paperwork. Consistent with these findings the law provides that any regulation issued by a federal financial regulatory agency shall, to the maximum extent practicable, insure the following:

1. Clear establishment of its need and purpose.

2. Consideration of meaningful alternatives.

3. Minimization of compliance costs, paperwork, and other burdens.

4. Avoidance of conflicts, dupli-

cation, and inconsistencies with regulations of other agencies.

5. Timely participation and comment by others.

6. Simplicity and clarity.

The federal financial regulatory agencies are to establish programs of periodic review of existing regulations to determine whether they achieve these policies and to revise regulations that do not do so.

Title IX (Foreign Control of United States Financial Institutions) prohibited the Board, the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board from approving, subject to certain limitations, the acquisition by a foreign person of a total of 5 percent or more of the stock or assets of a domestic financial institution. This moratorium expired on July 1, 1980.

Federal Trade Commission Improvements

Public Law 96-252, approved May 28, 1980, concerns the Federal Trade Commission. Among its other provisions, it deals with those who allegedly have violated a federal law for which the Board of Governors of the Federal Reserve System has rulemaking authority. If the person acted in good-faith reliance on, and in conformity with, a rule, regulation, or statement of interpretation or of approval of the Board, that reliance can be a defense in a proceeding against the person by the Commission or by the Attorney General upon request of the Commission.

The Board is also required to act promptly on requests for statements of interpretation or of approval of conduct and practices subject to laws for which the Board has rulemaking authority and the Commission has enforcement authority.

Silver Futures Market

Public Law 96-276, approved June 17, 1980, among other things, provides that the Commodities Future Trading Comission shall establish a joint working group with the Board of Governors of the Federal Reserve System, the Department of the Treasury, and the Securities and Exchange Commission to analyze the events in the silver cash and futures markets from September 1979 through March 1980. The group is to report its findings to the appropriate committees of the Congress, together with recommendations for legislative changes that could prevent similar events in any futures market.

Increase in Debt Ceiling

Public Law 96-286, approved June 28, 1980, temporarily increased the public debt limit to $925 billion through February 28, 1981. Subsequently, Public Law 96-556, approved December 19, 1980, increased that temporary ceiling to $935.1 billion.

An earlier authorization (Public Law 96-264, approved June 6, 1980) extended the temporary debt limit of $879 billion through June 30, 1980.

Small Business Regulatory Flexibility

Public Law 96-354, approved September 19, 1980, effective January 1, 1981, includes, among others, the following provisions:

1. Requires each agency to publish an agenda twice a year listing expected regulations with a significant impact on small entities (small busi-

nesses, small organizations, and small governmental jurisdictions).

2. Requires that any proposed regulation published in the *Federal Register* must be accompanied by a preliminary analysis of the impact of the regulation on small entities and a statement of alternatives that could minimize that impact consistent with the objectives of the law.

3. Requires the agency head to take specific steps to assure that small entities are given an opportunity to present their views on proposed regulations.

4. Requires a final analysis of the impact on small entities when the final rule is adopted.

5. Requires each agency to establish within six months a plan for a periodic review that will enable it to make changes to minimize the economic impact of its regulations on small entities. All regulations are to be reviewed within 10 years.

6. Requires the Chief Counsel for Advocacy of the Small Business Administration to monitor agency compliance and report to the Congress annually.

Management of the Public Debt

Public Law 96-377, approved October 3, 1980, has the following provisions:

1. Authorizes the Secretary of the Treasury, with the approval of the President, to fix the investment yield of U.S. savings bonds above 5½ percent if the aggregate of increases in any six-month period does not exceed 1 percent.

2. Effective October 1, 1980, increases to $70 billion the amount of long-term U.S. government bonds that may be issued with interest rates above the 4.25 percent statutory ceiling.

Bretton Woods Agreements

Public Law 96-389, approved October 7, 1980, authorizes the U.S. Governor of the International Monetary Fund to consent to an increase in the quota of the United States in the Fund; it also directs the Secretary of the Treasury to establish and chair a commission to assess, and make recommendations about, the policy of the U.S. government on the role of gold in domestic and international monetary systems, and to transmit to the Congress a report not later than October 7, 1981.

The commission, in addition to the Secretary of the Treasury, consists of three members of the Board of Governors and two members of the Council of Economic Advisers to be designated by the Secretary of the Treasury; one majority and one minority member each from the Joint Economic Committee of the Congress, the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Banking, Finance and Urban Affairs of the House, to be designated by the Speaker of the House and President of the Senate; and four distinguished private citizens with business, financial, or academic backgrounds to be designated by the Secretary of the Treasury.

Housing and Community Development and Home Mortgage Disclosure

Public Law 96-399, approved October 8, 1980, does the following, among other things:

1. Authorizes the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association to adjust the loss limits for mortgages that can be sold to those cor-

porations each year in accordance with the annual increase in the national average price of a one-family home as determined by the Federal Home Loan Bank Board. The initial loan limits are established at $93,750 for a single-family residence, $120,000 for a two-family residence, $145,000 for a three-family residence, and $180,000 for a four-family residence.

2. Authorizes the Secretary of Housing and Urban Development to undertake a demonstration program for negotiated interest rates on FHA-insured home mortgages (excluding graduated-payment mortgages). Under this program, after disclosure by the mortgagee to the borrower of the current maximum rate for FHA mortgages and a good-faith estimate of the number of points associated with that rate, the mortgagee and the borrower may negotiate a rate and specify it and the required discount points in a commitment agreement that binds the mortgagee for at least 30 days. The number of negotiated-rate mortgages insured in any fiscal year may not exceed 10 percent of all the mortgages that are insured by the FHA during the preceding fiscal year, or a total of 50,000 mortgages, whichever is greater. The Secretary of HUD is to monitor this program and report to the Congress by March 1, 1982.

Public Law 96-399 also extends the Home Mortgage Disclosure Act for a period of five years and, among other provisions, makes the following additions:

1. Requires the Federal Financial Institutions Examination Council to compile and disclose aggregate data about home mortgage loans by census tract for each standard metropolitan statistical area (SMSA), with further categorization according to location, age of housing stock, income level, and racial characteristics. The Board of Governors is to provide the staff and data processing resources for preparing these compilations and tables.

2. Requires the Federal Financial Institutions Examination Council, in consultation with the Department of Housing and Urban Development, to establish a central depository in each SMSA for disclosure reports of individual institutions.

3. Provides that lending information may be reported by county rather than by census tract in counties with a population of 30,000 or less.

4. Directs the Federal Financial Institutions Examination Council to conduct a study to be submitted to the Congress by March 1, 1981, on the feasibility and usefulness of requiring depository institutions to compile and disclose information with respect to small business loans.

Sunset of Credit Control

Public Law 96-508, approved December 8, 1980, in addition to increasing the authorization and extending the duration of the Council on Wage and Price Stability, provides for termination of the Credit Control Act on June 30, 1982.

Paperwork Reduction

Public Law 96-511, approved December 11, 1980, in order to minimize the burden of federal paperwork on those preparing reports, to minimize the cost of obtaining information, and to maximize the usefulness of such information to the federal government, contains the following amendments, effective April 1, 1981, among others, to the Federal Reports Act:

1. Makes the OMB the single point for clearing information-collection requests imposed upon the public by the federal agencies and independent regulatory agencies.

2. Gives the OMB a maximum of 90 days in which to approve or disapprove information-collection requests and a maximum of 60 days to comment on information-collection requirements of proposed agency rules and regulations.

3. Allows any independent regulatory agency to override an OMB disapproval of a proposed information-collection request or regulation by a majority vote of its members. Each such override, together with the reasons for it, is to be reported to the OMB.

Farm Credit

Public Law 96-592, approved December 24, 1980, revises and expands the lending authority of the Farm Credit System, and includes these provisions:

1. The Governor of the Farm Credit Administration is to consult regularly with the Board of Governors of the Federal Reserve System in connection with the effect of the Farm Credit System's lending activities on national monetary policy.

2. The Farm Credit Administration is to consult closely on a continuing basis with the Board of Governors to ensure that the regulations carrying out the export-and-import-loan and related authority of the banks for cooperatives conform to national banking policies, objectives, and limitations. Any regulation that poses unresolved differences between the Farm Credit Administration and the Board of Governors about conformance must be submitted to the Congress and is subject to a legislative veto by both of the Houses of the Congress.

Banking Supervision and Regulation

The Federal Reserve is one of three federal regulatory agencies with responsibilities for supervising and regulating commercial banks. A description of how the System carried out these responsibilities during 1980 follows.

Supervision for Safety and Soundness

Examinations and Inspections

The on-site review of operations is the primary mechanism for ensuring the safety and soundness of banking organizations. Examinations of state member banks and Edge corporations and inspections of bank holding companies entail (1) an appraisal of the quality of the institution's loans and investments; (2) an evaluation of management, along with internal operations, policies, and procedures; (3) an assessment of the key financial factors of capital, earnings, and liquidity; and (4) a review for compliance with applicable laws and regulations.[1]

State Member Banks
There were 997 state member banks at the end of 1980. They constituted 7 percent of all commercial banks, but because they typically were larger than average size, they held around one-fifth of all commercial bank assets.

In 1980, state member banks were examined annually, except when significant weaknesses call for more frequent examination. System personnel conducted 1,006 such examinations.

Edge and Agreement Corporations
Edge corporations are chartered by the Board to conduct an international banking business. Agreement corporations are state-chartered companies that enter into an agreement with the Board to limit their operations to international banking. The Federal Reserve examined 122 of the 126 Edge and 5 agreement corporations in operation at year-end.

Bank Holding Companies
During 1980, the number of bank holding companies rose by 576 to a total of 3,057. These organizations control commercial banks that hold about three-fourths of the total assets of U.S. commercial banks.

Most large bank holding companies, as well as small companies with significant nonbank assets, are inspected at least every 18 months; the others at least every three years. The inspection focuses on the operations of the parent holding company and its nonbank subsidiaries because these entities are not already examined by the federal banking agencies. System staff prepared 866 holding company inspection reports in 1980.

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[1] Compliance with consumer and civil rights laws is handled by the Board of Governors' Division of Consumer and Community Affairs and by specially trained examiners at the Federal Reserve Banks. These regulatory responsibilities are covered in the "Consumer and Community Affairs" section of this REPORT. Compliance with other statutes and regulations, which is treated in this section, is the responsibility of the Board's Division of Banking Supervision and Regulation and of the Reserve Bank examiners who check for safety and soundness.

Overseas Operations of U.S. Banking Organizations
International examinations of state member banks, Edge corporations, and bank holding companies are conducted at the banking organization's head office in the United States, where the ultimate responsibility for overseas facilities resides. To verify and supplement the results of the head-office examinations, on-site reviews of significant overseas facilities are performed at least every three years.

In 1980, the Federal Reserve examined ten foreign branches of state member banks and eight overseas subsidiaries of Edge corporations and bank holding companies.

Improvements to Examinations and Inspections

During the year, the Federal Reserve took a number of steps including the following to enhance its examination and inspection programs.

Bank Examinations
In cooperation with the other banking agencies, the Federal Reserve developed and implemented a uniform examination policy for classifying delinquent consumer installment loans and a uniform guideline for internal controls over foreign exchange operations. System staff also helped prepare policies and procedures for examining the banks that participate in the Clearing House Interbank Payments System (CHIPS).

Bank Holding Company Inspections
The year 1980 was the first full year of experience with the uniform rating system for bank holding companies. This system, which complements the uniform rating system previously adopted for banks, provides standardized information on all holding companies, including those that exhibit potentially unsafe or unsound characteristics.

During the year, the Federal Reserve completed its *Bank Holding Company Supervision Manual.* This manual contains Board policies and formal inspection procedures.

Futures and Forward Contracts
The rapid growth and occasional abuses in trading in futures and forward contracts resulted in two policy actions by the Board of Governors during 1980. In March, along with the other banking agencies, the Board issued revised guidelines for banks that engage in futures, forward, and standby contracts on U.S. government and agency securities. In August it approved a policy statement on bank holding company participation in such contracts.

Frequency of Examinations and Inspections
The Board adopted a new policy on the frequency of examinations and inspections that emphasized the supervision of institutions that have problem characteristics and that are thus most in need of frequent, on-site reviews.

Surveillance Program

In addition to the on-site effort, a Systemwide surveillance program monitors the financial condition of banks and holding companies by providing computer-assisted analysis of periodic financial reports these organizations submit to the Federal Reserve Banks. The surveillance information is used in scheduling examinations, thereby enabling limited examiner resources to be directed to those organizations most in need of supervisory attention.

Specialized Examinations

The Federal Reserve conducts certain specialized examinations.

Electronic-Data-Processing Examinations

The Federal Reserve examines the electronic-data-processing activities of state member banks, as well as independent centers that provide EDP services to these banks. During the year, System EDP examiners conducted on-site reviews of 153 state member banks and 92 data centers.

The Federal Reserve cooperated with the other federal supervisors in preparing and publishing the *EDP Examination Handbook*. The handbook, which includes a uniform report of examination, constitutes a comprehensive reference work.

Trust Examinations

The Federal Reserve examines trust departments of state member banks and trust companies that are members of the Federal Reserve System. These examinations determine whether the trust functions are conducted in accordance with applicable fiduciary principles and with other laws and regulations. Of the 386 institutions exercising trust powers that are under the Board's supervision, 376 were examined in 1980.

Examinations of Transfer Agents

Trust examiners conduct separate reviews of state member banks and bank holding companies that act as transfer agents. Transfer agents countersign and monitor the issuance of securities, register transfers of securities, and exchange or convert securities. Of the 165 state member banks and bank holding companies that were registered with the Board of Governors as transfer agents, 93 percent were examined during 1980.

To reduce the reporting burden on transfer agents, the Board amended Regulation H to eliminate the requirement that a current list of issuers serviced by the agent be filed with the Board. Together with the other supervisory agencies, the Federal Reserve is considering additional changes to the regulation aimed at reducing the amount of data required in the registration statements that transfer agents prepare.

Examinations of Municipal Securities Dealers and Clearing Agencies

As a result of the Securities Acts Amendments of 1975, the Board is responsible for supervising state member banks and bank holding companies that act as municipal securities dealers or as clearing agencies.

Forty-four of the 48 state member banks registered with the Board as dealing in municipal securities for their trading accounts were examined in 1980.

A clearing agency acts as a custodian of securities for the settlement of securities transactions by bookkeeping entries. All four of the clearing agencies registered with the Board were examined in 1980; one examination was conducted jointly with the Securities and Exchange Commission.

Enforcement Actions and Civil Money Penalties

Under the Financial Institutions Supervisory Act, the Board has the authority to enter into written agreements or cease-and-desist actions with state member banks, bank holding companies, and persons associated with these organizations that engage in unsafe or unsound practices or that violate applicable laws or regulations. The Board may also assess civil money penalties for violations of a cease-and-desist order, of the Bank Holding Company Act, or of certain provisions of the Federal Reserve Act.

Forty enforcement actions, most of which dealt with unsafe and unsound banking practices, were initiated in 1980; 30 were completed by year-end. The completed actions took the form of 18 written agreements, 10 cease-and-desist orders, and 2 temporary cease-and-desist orders. Seven of the 30 actions involved state member banks; 16, bank holding companies or their subsidiaries; and 7, individuals participating in the affairs of the financial institutions.

In two instances, civil money penalties were assessed for violations of the Bank Holding Company Act. In January 1981, a bank holding company and a principal stockholder resolved these violations by paying substantial fines.

The Board made available to the public a description of all formal supervisory actions completed during the year, and the reasons for them. This action was taken to achieve the fullest public disclosure of information that was consistent with valid interests of confidentiality.

The Federal Reserve also took steps to coordinate its disciplinary actions with those of the other supervisory agencies. In July, the Board issued a policy statement on the assessment of civil money penalties. First, the policy specified the factors to be considered in deciding whether, and in what amount, civil money penalties should be imposed; and second, it established procedures for exchanging information among the banking agencies about assessment actions taken.

Staff Training

To keep pace with the rapidly changing and increasing responsibilities of its staff, the Federal Reserve completed a revision of its core training curriculum during 1980.

During the year, the Federal Reserve conducted nine banking schools—four introductory, four intermediate, and one advanced—as well as three financial analysis schools and one holding company applications school. For its consumer compliance examiners, the System offered one basic and one advanced consumer affairs school.

Training is also offered in such specialized areas as international banking, trust activities, electronic data processing, consumer protection, and civil rights. The Federal Reserve assisted in the development and staffing of these specialized courses, which are under the auspices of the interagency Federal Financial Institutions Examination Council.

In 1980, about 450 System employees attended in-house schools and 200 others completed specialty courses of the Examination Council. Staff from state banking departments and several foreign supervisory authorities also attended the System schools.

Regulation of U.S. Banking Structure

The Board of Governors administers the Bank Holding Company Act, the

Bank Merger Act, and the Change in Bank Control Act. As a result, the Federal Reserve passes on a variety of proposals that directly or indirectly affect U.S. banking structure at the local, regional, and even national level. The Board also has primary responsibility for regulating the international operations of U.S. banking organizations.

Bank Holding Company Act

By law, a company must obtain the Board's approval to form a bank holding company by securing control of one or more banks. And, once formed, a holding company must receive the Board's approval before acquiring more banks or related, nonbanking companies.

In deciding a bank holding company application, the Board considers the likely effects of the proposal on competition, the convenience and needs of the community, the applicant's financial and managerial resources, and the prospects of both the applicant and the firm to be acquired.

In 1980, the Board—and, under delegated authority, the Federal Reserve Banks and the Office of the Secretary of the Board—acted on 1,574 bank holding company applications. The System approved 681 proposals to organize holding companies and denied 9; 177 bank acquisitions were approved, while 8 were denied; and 665 requests to acquire nonbank companies that are closely related to banking were approved and 4 rejected. Data on all holding company decisions are shown in the accompanying table.

To shorten the processing of applications that are objected to by third parties, the Board adopted new procedures. The new procedures provide for greater, direct public participation in contested cases.

In 1980, the Board and the Reserve Banks initiated a program to explain more fully System policies and procedures concerning applications. A series of informative booklets on how the Federal Reserve processes and decides various kinds of applications will be distributed. The first two pamphlets, which are in the final stages of preparation, explain how the System handles holding company and bank branch applications.

Bank Holding Company Decisions by the Federal Reserve, 1980

Proposal	Direct action		Delegated authority			Total
	Board of Governors		Office of the Secretary	Reserve Banks		
	Approved	Denied	Approved	Approved	Permitted	
Formation of holding company	41	9	2	638	...	690
Retention of subsidiary bank	1	0	0	1	...	2
Acquisition						
Bank	33	8	16	128	...	185
Nonbank	58	4	3	196	408	669
Certain grandfathered, nonbank company	0	0	0	0	17	17
Merger of holding companies	4	3	0	4	...	11
Total	137	24	21	967	425	1,574

Bank Merger Act

The Bank Merger Act requires that all proposed bank mergers receive the prior approval of the appropriate federal bank regulatory agency. If the surviving bank of the merger is a state member bank, the Federal Reserve has primary jurisdiction.

Before passing on a bank merger, the Federal Reserve considers the competitive effects of the proposal and the financial and managerial resources and prospects of the existing and proposed institution, as well as the community's convenience and needs. The Board must also consider the views of certain other agencies on the competitive factors involved in the transaction.

During 1980, the Federal Reserve approved twenty-nine merger applications, four of which were approved by the Board and the remainder by the Reserve Banks under delegated authority. As required by law, a description of each merger is contained in table 20 in the Statistical Table section of this REPORT.

When one of the other two federal banking agencies has jurisdiction over a merger, the Board is asked to comment on the competitive factors to assure comparable enforcement of the antimonopoly provisions of the act.

On behalf of the Board, the Reserve Banks submitted 122 reports on competitive factors to the Comptroller of the Currency and 156 such reports to the Federal Deposit Insurance Corporation.

At midyear, the Board, along with the Comptroller of the Currency and the FDIC, adopted standard terminology for assessing competitive factors in bank merger cases that should guarantee greater consistency in administering the Bank Merger Act.

Change in Bank Control Act

The Change in Bank Control Act of 1978 gave the federal banking agencies the authority to disapprove changes in the control of banks and bank holding companies. The Federal Reserve is the responsible agency for changes in the control of state member banks and bank holding companies. Factors to be considered in determining whether a transfer of control should be denied include the financial condition, competence, experience, and integrity of the acquiring person, and the effect on competition.

Eleven changes in ownership of the stock of state member banks were reported in 1980; 63, for holding companies. All but three of the proposed changes were processed by the Reserve Banks; only one was denied.

During 1980, System personnel prepared a manual on "Procedures for Processing Change in Control Notices." The manual, which has been distributed to the Reserve Banks, should lead to more effective and consistent processing of these notices.

International Activities of U.S. Banking Organizations

The Board has three principal statutory responsibilities in connection with the international operations of U.S. banking organizations. They are (1) to issue licenses for foreign branches of member banks and regulate the scope of their activities; (2) to charter and regulate Edge corporations; and (3) to authorize and regulate overseas investments by member banks, Edge corporations, and bank holding companies.

Foreign Branches of Member Banks
Under provisions of the Federal Reserve Act and Regulation K, member banks may establish branches in foreign countries, subject, in most cases, to the Board's prior approval. In reviewing proposed foreign branches, the Board considers the requirements of the governing statute, the condition of the bank, and the bank's experience in international business. In 1980, the Board approved the opening of 22 foreign branches.

By the end of 1980, 159 member banks were operating 799 branches in foreign countries and overseas areas of the United States, a net increase of 10 for the year. One hundred twenty-four national banks were operating 674 of these branches, while 35 state member banks were operating the remaining 125 branches. Assets of foreign branches expanded by 13 percent during the year, totaling an estimated $320 billion at year-end.

Edge and Agreement Corporations
Under sections 25 and 25(a) of the Federal Reserve Act, Edge and agreement corporations may engage in international banking and foreign financial transactions. These corporations, which are usually subsidiaries of member banks, provide their owner organizations with additional powers in two areas: (1) They may conduct a deposit and loan business in states other than that of the parent, provided that the business is strictly related to international transactions; and (2) they have somewhat broader foreign investment powers than member banks, being able to invest in foreign financial organizations, such as finance companies and leasing companies, as well as in foreign banks.

In 1980, the Board approved the establishment of 15 Edge corporations and the operation of 59 branches by established Edge corporations. These actions resulted in Edge corporations supplying international banking services for the first time in Minneapolis, Seattle, Atlanta, Cleveland, and Philadelphia.

Foreign Investments
The Board has authority under the Federal Reserve Act and the Bank Holding Company Act to authorize foreign investments by member banks, Edge and agreement corporations, and bank holding companies.

In 1980, the Board reviewed and approved 81 foreign investment proposals. Most were for additional investments in various financial enterprises, such as a merchant bank in the United Kingdom, a commercial bank in Hong Kong, and a consumer finance company in Thailand.

Capitalization and Activities of Edge Corporations

The International Banking Act (IBA) removed the statutory limit on liabilities of an Edge corporation under which the corporation's debentures, bonds, and promissory notes could not exceed 10 times the corporation's capital and surplus. The Board established a new capital requirement of 7 percent of risk assets for Edge corporations engaging in international banking in the United States to permit these corporations to compete more effectively with other international organizations that are more highly leveraged.

The 7 percent standard has, in fact,

led to some added leveraging by Edge corporations. Nonetheless, 50 of the 66 *banking* Edge corporations had ratios more than twice the new standard on September 30, 1980, so their capitalization in relation to risk assets remained high by international banking standards.

Two other important changes arising from the IBA permitted Edge corporations (1) to be owned by foreign banks and (2) to establish branches within the United States. By year-end 1980, the Board had authorized 8 foreign banks to establish Edge corporations and had allowed 17 Edge corporations to operate 63 domestic branches. These branches represented the conversion of 26 existing corporations to branches and the establishment of 37 new offices.

Delegation of Applications

The Board, in exercising its responsibility to formulate policies and procedures in the applications area, delegates certain regulatory functions —including the authority to approve, but not deny, certain types of applications—to the Reserve Banks and to the Board's Division of Banking Supervision and Regulation and Office of the Secretary.

In September 1979, the Board issued revised rules that delegated additional authority to the Reserve Banks to approve bank holding company and bank merger applications. During 1980, the first full year under expanded delegation, 89 percent of all holding company and merger applications were acted on under delegated authority. In contrast, only 78 percent were processed by the Reserve Banks in 1978, the last full year before expanded delegation.

Most benefits that were expected from increased delegation were achieved. Routine cases were removed from the Board's agenda and more efficient use was made of Board and Reserve Bank staff.

Timely Processing of Applications

Although the number of holding company applications increased by 40 percent from 1979 to 1980, the System still acted on 91 percent of these proposals within 90 days of the filing of a complete application. In fact, for the last four years, the Federal Reserve has completed at least 90 percent of holding company proposals within 90 days.

Twenty-two of the 29 bank merger applications were processed within 90 days; of the 7 that took longer, 6 involved one applicant that was involved in lengthy protest proceedings. The System also prepared 278 reports of competitive factors on proposed mergers for the other two banking agencies; all but a few were completed within a 30-day limit. Of the 74 change-of-control notices, 72 were handled well within 90 days.

The System also measures its performance in processing international applications against a 90-day standard. During 1980, the Federal Reserve acted on 238 international applications, 95 percent of which were decided in 90 days or less.

Public Notice of Board Decisions

Each action by the Board or its delegated representative on a bank holding company, bank merger, change in control, or international banking case is effected by an order or announcement. Orders set forth the essential facts of the application, the basis for the decision, and the decision made. Announcements state merely the action taken by the Federal Reserve. All orders and announcements are released immediately to the public and are reported in the *Federal Reserve Bulletin* and the weekly H.2 release.[2] Announcements of applications and notices received by the System, but not yet acted on, are also made in the H.2 release.

Board Policy Decisions

In 1980, the Board of Governors announced several policy actions for regulating the expansion of banks and bank holding companies.

"Grandfather" Rights of Holding Companies

Under the 1970 Amendments to the Bank Holding Company Act, one-bank holding companies that acquired nonbank activities between mid-1968 and year-end 1970 had until December 31, 1980, to divest such nonbank activities; to obtain Board approval to keep them; or to cease to be a bank holding company by divesting their bank holdings.

In December 1978 and again in December 1979, the Board urged bank holding companies that had not filed divestiture plans to do so well in advance of the deadline. In May 1980, the Board announced a program for orderly compliance with the December 31, 1980, deadline. As part of the program, the Reserve Banks contacted those companies that had not filed specific plans for meeting the deadline.

Nearly all of the 472 grandfathered bank holding companies achieved compliance. Seventy-nine firms sold their banking subsidiaries, thereby ceasing to be bank holding companies. Most of the remainder retained their holding company status by ceasing impermissible nonbanking activities or by qualifying these activities under various statutory exemptions. At year-end, one company was involved in litigation with the Board over the divestiture requirements of the act.

Financial Factors in Small One-Bank Holding Company Formations

One-bank holding companies are often formed to facilitate the sale of locally owned, small banks. In evaluating such formations, the Board previously required small one-bank holding companies to repay all acquisition debt within 12 years, and to maintain a satisfactory level of capital in the bank subsidiary. On March 28, the Board issued a new policy that facilitated the transfer of ownership in small banks without diluting bank safety and soundness.

Under the revised policy, the holding company's debt-to-equity ratio must decline to 30 percent within 12 years. The 30 percent ratio can be achieved through debt repayment, retention of earnings to build up equity, or a combination of the two. Gross capital in the subsidiary bank should at no time fall below 8 percent of assets so long as the debt-to-equity ratio of the holding company exceeds 30 percent.

Investments in Foreign Companies with U.S. Operations

By statute, a U.S. banking organization may invest in a foreign company only if that company does not engage in business in the United States, except for such business that the Board determines to be incidental to the company's international or foreign activities. The Board had previously limited incidental business to those activities that may be undertaken by an Edge corporation. In 1980, the Board broadened this interpretation by establishing the following criteria for such U.S. operations to be considered incidental: (1) The foreign company is predominantly engaged in international or foreign business; (2) the U.S. activities are banking or closely related to banking; and (3) the U.S. investor does not own more than 25 percent of, or otherwise control, the foreign company.

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[2] "Actions of the Board; Applications and Reports."

Supervision and Regulation of Foreign Banking Operations in the United States

During the 1970s, foreign entities rapidly expanded their operations in the United States; today they are a significant element in the U.S. banking system. At midyear 1980, some 150 foreign banks operated 332 branches and agencies in the United States with assets of $123 billion. Foreign banks also owned a controlling interest in 55 U.S.-chartered banks with assets of $65 billion, while foreign individuals and foreign nonbank companies held majority interests in another 40 U.S. banks with assets of $5 billion. Together, foreign entities now control 12 percent of U.S. banking assets.

This section highlights the actions taken by the Federal Reserve to improve the supervision and regulation of foreign banking operations in the United States, as a result of their rapid growth and the passage of the International Banking Act of 1978.

International Banking Act

The International Banking Act (IBA) created a systematic, federal role for supervising and regulating foreign banks in the United States. At the same time, the act preserved the dual system of federal and state responsibilities by dividing supervisory and regulatory powers among the three federal bank agencies and the several states.

The act assigned primary supervisory authority to the states in the case of uninsured, state-chartered branches and agencies of foreign banks. The Board was named the primary federal supervisor of such branches and agencies, but it was to rely, to the extent possible, on supervision by the various states. The Federal Deposit Insurance Corporation, because of its potential creditor status, received examination authority over insured, state-chartered branches, while the Comptroller of the Currency became the supervisor of federally chartered branches and agencies.

Since a foreign bank may operate in several states under both federal and state charters, the IBA assigned to the Board residual authority to review the overall U.S. operations of foreign banks. The Board also was to be responsible for implementing provisions of the act dealing with the interstate banking activities of foreign banks and their nonbanking operations in the United States.

Home-State Designations

The IBA allowed foreign banks to conduct a full-service banking business in only one state, except for grandfathered facilities in other states, which could be retained. This full-service banking state is designated the "home state." In October 1980, the Board issued an amendment to Regulation K giving foreign banks 180 days to select their home state. A one-time change in that selection was allowed, provided that banking operations in the previous home state that had not been grandfathered were subsequently limited.

Rules on Interstate Branches and Agencies
The IBA permits the establishment of agencies and limited-service branches outside a foreign bank's home state. It distinguishes agencies from branches by permitting the former to hold only credit balances while allowing the latter to accept deposits. The Board adopted criteria for a credit balance, and agencies must meet this definition in conducting their business.[3] Branches established outside a foreign bank's home state must agree to accept only those types of deposits that Edge corporations may accept.

Exemptions for Nonbank, Nonfinancial Business
Foreign banks received a limited exemption under the IBA to engage in certain nonbank activities in the United States that are generally impermissible for other banking organizations. This exemption reflected a balancing in the act among the three goals of (1) maintaining the separation of banking and commerce in the United States, (2) promoting competitive equality between U.S. and foreign organizations, and (3) limiting the extraterritorial effects of U.S. law.

In December, the Board ruled that a foreign organization must be engaged principally in the banking business outside the United States to qualify for the exemption. Qualifying foreign organizations are permitted, without the Board's prior approval, to engage in certain nonbank, nonfinancial businesses in the United States. Foreign banking organizations, like U.S. ones, still need the Board's prior approval to engage in U.S. nonbank activities of a financial nature.

Examination of Foreign Branches and Agencies

To improve supervision, the Federal Reserve and the other two federal bank supervisors, in cooperation with several state banking departments, prepared a new examination report for branches and agencies of foreign banks. It is being used, in whole or in part, by the federal agencies and by most states that permit foreign banks to establish branches and agencies.

Most branches and agencies of foreign banks are state-chartered and uninsured. During 1980, System examiners participated with state examiners in 174 coordinated examinations of such branches and agencies.

Reporting System

The federal supervisory authorities improved their surveillance of U.S. operations of foreign organizations by establishing three new reports and revising a fourth.

In 1980, the three federal banking agencies instituted a new quarterly report of condition for U.S. branches and agencies of foreign banks to monitor more closely the financial developments in these entities.

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[3] See Regulation K, Subpart B, section 211.22.

To gather better information on the financial strength of foreign companies that own U.S. banks or that operate U.S. branches and agencies, the Board revised its Annual Report of Foreign Banking Organizations and instituted a new report on the operations and organization of these firms. These two reports will assist the Federal Reserve in appraising the foreign parent's ability to support its U.S. banking operations.

The Board also adopted a new quarterly report on intercompany transactions and balances to monitor financial flows between foreign bank holding companies and their U.S. bank subsidiaries.

Experience with International Banking Act

A comprehensive system for supervising and regulating foreign banking operations in the United States is now in place, and the Board's responsibilities for implementing the International Banking Act are basically completed.

In September 1980, the Board reported to the Congress on its experience under the IBA. Noting that the statute was still too new to judge its full impact, the Board undertook to provide the Congress with a second report within two years on the developments in this rapidly changing area.

Enforcement of Other Laws and Regulations

The preceding sections discussed the supervision of bank safety and soundness and the regulation of banking structure. This section describes the enforcement of other laws, rules, and regulations.

Other Banking Regulations

During 1980, steps were taken to comply with existing duties, accommodate new ones, or curtail regulatory costs in several statutory areas.

Financial Disclosure by State Member Banks

The Board's Regulation F deals with the disclosure requirements for state member banks that have securities registered under the Securities Exchange Act of 1934. Some 72 state member banks, most of which are small- and medium-sized, were registered with the Board under this regulation. These institutions must file certain materials, such as financial reports and proxy statements, that are of interest to investors. The Board staff reviews these filings for compliance with the regulation.

The disclosure rules under Regulation F are substantially similar to those issued by the Securities and Exchange Commission. Effective November 1, 1980, the Board adopted amendments to this regulation to simplify its requirements and to conform with recent rule changes made by the SEC.

Bank Secrecy Act

The Department of the Treasury relies on System examiners to verify the compliance of state member banks and Edge corporations with the Treasury's Financial Recordkeeping and Reporting Regulation, which implemented the Bank Secrecy Act. The regulation requires financial institutions to maintain records and reports on certain transactions of more than

$10,000. One purpose of the law is to assist law enforcement personnel in identifying transactions that may involve funds obtained illegally.

The Federal Reserve, with the other federal supervisory agencies, strengthened examination procedures for verifying compliance with the Bank Secrecy Act. The procedures, which were revised in cooperation with the General Accounting Office and the Treasury Department, were incorporated in the System's examination program in early 1981.

Loans to Insiders

On November 21, 1979, the Board amended Regulation O to implement the reporting requirements of Titles VIII and IX of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (FIRA). These titles require public disclosure of loans made by an insured bank and its correspondent banks to executive officers and principal shareholders of the bank. Moreover, these officers and shareholders must report to the bank's board of directors any loans that they received from correspondent banks.

In early 1980, field examiners began checking for compliance with this act.[4]

Applications by State Member Banks

The Board's authority over state member banks covers the authorization of new branches, investments in bank premises that exceed 100 percent of capital stock, additions to the capital base from sales of subordinated debt, and waiver of the six months' notice of intention to withdraw from membership in the System. The Federal Reserve employs the applications or notifications process to enforce these statutory provisions.

With few exceptions, these matters are handled under delegated authority by the Federal Reserve Banks, or, in the case of proposed sales of subordinated debt, by the Director of the Board's Division of Banking Supervision and Regulation.

Commercial Paper Sales

The Board issued a policy statement on the sale of bank holding company commercial paper that expressed concern that individuals may purchase such paper with the misunderstanding that it is an insured deposit or an obligation of a subsidiary bank. To avoid this possibility, commercial paper obligations of holding companies must state on their face (1) that they are not insured by the Federal Deposit Insurance Corporation, and (2) that they are not obligations of a bank.

Examiners now review the marketing practices of the holding company to assure the suitable separation of commercial paper sales from the retail deposit-taking function; they also check for the required information on the face of the commercial paper obligation.

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[4] Under section 22(g) of the Federal Reserve Act, state member banks must include with their quarterly report of condition a list of loans to executive officers during the quarter. As required, these data for 1980 are summarized below.

Period	Number	Amount (dollars)	Interest rates charged (percent)
January 1—March 31	981	5,634,884	4-20
April 1—June 30	897	5,641,287	4-24
July 1—September 30	1,151	8,367,239	5-19

Stock Repurchases by Bank Holding Companies

A stock repurchase occurs when a bank holding company purchases its own shares from existing shareholders. Oftentimes such purchases are financed through borrowings, so that the net effect of the transaction is to increase bank holding company debt at the very time that its equity is decreased. Since relatively large repurchases may adversely affect the financial condition of a bank holding company and its bank subsidiary, the Board, by regulation, requires holding companies to provide advance notice of repurchases that retire 10 percent or more of their consolidated equity capital.

The Federal Reserve reviewed about 100 such notifications during 1980, most of which were subject to Reserve Bank action on the Board's behalf.

Management Interlocks

The Board amended Regulation L to carry out the Depository Institutions Management Interlocks Act (Title II of the FIRA). The purpose of the Interlocks Act and of Regulation L is to foster competition by generally prohibiting the managing officials of state member banks and bank holding companies from serving in a management capacity at another depository institution if the two organizations are large or are located in the same local area.

Field examiners check for compliance with the new law, and Federal Reserve staff process applications for permission to enter into management interlocks under special circumstances.

Securities Regulation

Under the Securities Exchange Act of 1934, the Board is responsible for regulating the use of credit for purchasing or carrying securities. The Congress assigned this task to the Board in order to restrain the type of credit-financed speculation that contributed to the stock market crash of 1929.

In fulfilling its responsibility under the law, the Board imposes limitations on the amount of credit that might be provided by securities brokers and dealers (Regulation T), by banks (Regulation U), and by other lenders (Regulation G). Regulation X extends these credit limitations, or margin requirements, to certain borrowers and certain credit extensions, such as credit obtained from foreign lenders by U.S. citizens.

These regulations apply to stocks and bonds traded on national securities exchanges, as well as to certain over-the-counter (OTC) stocks and bonds that the Board designates as having characteristics similar to those of stock listed on the national exchanges. The Board published revised lists of OTC stocks subject to its margin regulations on April 4 and October 3, 1980. The October 3 list contained the names of 1,305 stocks. The Board's Division of Banking Supervision and Regulation monitors the market activity of all OTC stocks to determine the stocks that should be placed on this list.

The SEC, the National Association of Securities Dealers, and the national securities exchanges examine brokers and dealers for compliance with Regulation T. The three bank supervisory agencies examine banks for compliance with Regulation U, with the Board being responsible for state member banks that extend stock-secured credit for the purpose of buying margin stock.

The Board, the National Credit Union Administration, and the Farm Credit Administration examine other lenders under their respective jurisdictions for compliance with Regulation G. At the end of 1980, there were 512 such lenders, 270 of which were subject to the Board's supervision. During the year, Federal Reserve examiners inspected 154 lenders who were subject to Regulation G for adherence to its margin requirements.

On March 6, 1980, the Board approved several technical changes to Regulation T to reduce the administrative burden placed on securities brokers and dealers and their self-regulatory organizations. On June 12, the Board amended Regulation T to facilitate the activities of stock specialists and option marketmakers, who are obligated to promote fair and orderly markets in their specialty securities. On June 25, the Board adopted an interpretation of Regulation G that allows greater employee participation in corporate stock-option plans. On August 7, the Board amended Regulation T to permit securities brokers and dealers to extend credit on fully paid-for mutual shares, thereby reducing significantly the inequity that existed between broker-dealers and other lenders, who already were permitted to extend such credit.

Federal Reserve Membership

At the end of 1980, 5,422 banks were members of the Federal Reserve Sytem, a net decrease of 3 from the previous year. Member banks operated 24,379 branches on December 31, 1980, a net increase of 836 for the year.

Member banks accounted for 37 percent of all commercial banks in the United States, and for 64 percent of commercial banking offices. Complete figures on changes in the number of banks and banking offices by charter class are provided in table 18 in the Statistical Tables section of this REPORT.

Regulatory Improvement Project

Under the Board's Regulatory Improvement Project, existing regulations and reporting requirements are reviewed on a regular basis, and eliminated or reduced when consistent with the law and the public interest.[5] Examples of simplifying or cost-reducing actions that were discussed earlier include changes in Regulation F (investor disclosure by state member banks), Regulation H (transfer agents), Regulation K (international banking), Regulation T (margin credit by brokers and dealers), and Regulation Y (delegation of holding company applications).

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[5] See the "Regulatory Improvement Project" section of this REPORT for further information.

Regulatory Improvement Project

During 1980, the Regulatory Improvement Project, which was created in 1978 as a temporary task force, was made a permanent part of the Board's organizational structure under the Office of the Secretary. The project's mandate is to improve the Board's regulations and rulemaking procedures, and it plays a crucial role in coordinating the zero-based reviews of all the regulations. These analyses ensure, among other things, that "the need for and purpose of such regulation is established clearly and that meaningful alternatives" are considered. Minimizing compliance costs, paperwork, and other burdens, as well as simplifying and clarifying the regulatory language, also are an essential part of the review process.

In addition, the project this past year was assigned the task of coordinating the ongoing process of amending and interpreting the regulations, in compliance with the Financial Regulation Simplification Act and the Regulatory Flexibility Act. In implementing these new statutes, the Federal Reserve, through the Federal Financial Institutions Examination Council, expanded the scope of its activities with the other financial regulatory agencies, in order to avoid conflicts, duplication, and inconsistencies among the various regulations.

A major task of the project is improving the Board's Rules of Procedure so as to enhance public participation and comment. A part of this effort is the broadening of access to regulatory materials with a newly created Federal Reserve Regulatory Service, which is designed to bring together in a single publication all Board regulations, interpretations, and rulings. This service will provide the public with a comprehensive and authoritative source of information.

Accomplishments in 1980

The Depository Institutions Deregulation and Monetary Control Act of 1980 (Public Law 96-221), of which the Financial Regulation Simplification Act is Title VIII, required the Federal Reserve to conduct an extensive analysis and reevaluation of several of its major regulations. In compliance with Title I, the Monetary Control Act, the Board revised its regulations on reserve requirements (Regulation D) and access to the Federal Reserve discount window (Regulation A) to reflect their applicability to all depository institutions.

In revising Regulation D on reserve requirements, the Board undertook several steps "to avoid the imposition of unnecessary burdens on reporting institutions and the duplication of other reporting requirements," as required by the statute. A special committee on reports was established to develop procedures to minimize the number of items that depository institutions would have to report on regularly, while, at the same time, maintaining sufficient information to achieve the major objective of enhanced control of the money supply. It was decided to require depository institutions with deposits or assets of less than $15 million to report only on a quarterly basis (while still maintaining reserves). Such a procedure should not compromise the accuracy of the macroeconomic data needed to guide open market operations. To minimize further the burden on small institutions, and to provide time for the Board to explore the kinds of permanent relief that might be available, the Board postponed implementing the requirement of maintaining and reporting reserves for institutions of less than $2 million.

Regulation D also was redrafted to incorporate the relevant interpretations pertaining to deposits and reserves that had been issued in the past. The Federal Reserve System initiated a series of meetings throughout the country to explain the regulation to the affected institutions.

Similar efforts were made with respect to Regulation A. To facilitate an understanding of requirements for gaining access to the discount window, an explanatory pamphlet was written to assist small financial institutions with limited legal resources.

In implementing the Truth in Lending Simplification and Reform Act (Title VI of the Depository Institutions Deregulation and Monetary Control Act), Regulation Z was completely redrafted and reorganized to incorporate relevant interpretations in the regulation and in a new accompanying commentary. The revised regulation contains a number of provisions that minimize the regulatory burden. For example, the amount of detailed information a creditor must disclose has been reduced substantially. In addition, as the statute requires, the Federal Reserve developed model forms to assist creditors and to enhance compliance. The forms should reduce the legal and managerial expenses of the creditors and minimize their litigation costs, and thus should help reduce the cost of credit. An improvement in compliance, as well as a reduction in the cost of credit, will benefit all consumers.

In the area of electronic fund transfers, governed by Regulation E, the Board gave its permission for a telephone-notification system for preauthorized deposits, instead of the costly and sometimes unreliable mail-notification system, and "grandfathered" certain nonconforming automated-teller machines to spare institutions the expense of installing new machines before the old ones became obsolete.

Concurrently with the analytic review, some of the Board's regulations were completely redrafted for simplicity and clarity. For example, major efforts were directed to simplifying as well as clarifying the language of Regulation Z. A recent complete revision of subparts A and B of Regulation J (Collection of Checks and Other Items and Wire Transfers of Funds), which had contained some sentences 150 words long, elicited favorable comments on the increased conceptual and syntactical clarity of the regulation and the better understanding of its requirements by bankers, lawyers, and other users.

Work in Progress

Regulations that are currently under review include Regulation C (Home Mortgage Disclosure), Regulation Y (Bank Holding Companies and Change in Bank Control), and Regulations G, T, U, and X (margin credit requirements for banks, brokers, dealers, and borrowers). Staff work on the analysis and simplification of these regulations is near completion, and action by the Board is expected sometime in the second half of 1981.

Federal Reserve Banks

Developments in Payments Mechanism

The volume of payments by checks and through automated clearinghouses (ACHs) continued to increase during 1980. Check volume expanded by a fairly typical 4 percent to 16 billion items cleared by Federal Reserve Banks, whereas ACH volume accelerated by increasing 29 percent to 227 million payments cleared in 1980. The rapid expansion of transfers cleared through ACHs is attributable to improvements in clearing schedules, increased awareness of the service by corporations and individuals, recognition of the efficiency of ACHs, and an apparent increase in the willingness of the public to accept payments that are deposited directly to their bank accounts. In addition, the direct deposit program for federal recurring payments improved significantly, and the continued promotion of the program resulted in an increase in the volume of regular government payments as well.

A proposal to extend the operating hours for the transfer and settlement of funds transmitted over the System's wire network was adopted in late 1980 to accommodate the increased traffic and to establish uniform deadlines. This change will be implemented in May 1981 and will both provide equal access to the System's wire network for all financial institutions and facilitate same-day settlement of a larger number of financial transactions.

Federal Reserve check float, an area of ongoing analysis, declined during the year, a result of several actions taken to curtail it. The amount of float fell from a daily average high in 1979 of $6.7 billion to an average of $4.2 billion in 1980. Among the actions that contributed to this reduction were improvements to the Federal Reserve's interdistrict and intradistrict transportation systems. A new system was designed and implemented to utilize more efficient and reliable transportation methods.

During 1980, plans were developed to implement the Monetary Control Act of 1980, which calls for the pricing of System payment services as well as the elimination or the pricing of Federal Reserve check float. Implementation of these plans is scheduled to begin in January 1981. In addition, work has begun on the installation of the new Federal Reserve communications system, which will aid in the transfer of payments, especially as more large-dollar items are converted from paper to electronic transfers.

Major steps to modernize the Federal Reserve communications system were taken in 1980, closely adhering to a previously established timetable. The new system was designed to take account of anticipated increases in the volume of electronic payments, extension of access to nonmember financial institutions, anticipated improvements in the payments mechanism, and the effects of pricing of services. Unlike the centralized system currently in use, the new one will be decentralized, thus extending its versatility and reliability. Implementation will begin with a pilot test in 1981; completion is expected in about 1983.

Examination

The Board's Division of Federal Reserve Bank Operations examined the 12 Federal Reserve Banks and their 25 branches during 1980, as required by section 21 of the Federal Reserve Act.

In conjunction with the examination of the Federal Reserve Bank of New York, the Board's examiners audited the accounts and holdings related to the Federal Reserve System Open Market Account and the foreign currency operations conducted by that Bank in accordance with policies formulated by the Federal Open Market Committee, and furnished copies of these reports to the Committee. The procedures that were followed by the Board's examiners were surveyed and appraised by a private firm of certified public accountants, pursuant to the policy of having such reviews made annually.

Earnings and Expenses

The accompanying table summarizes the earnings, expenses, and distribution of net earnings of the Federal Reserve Banks for 1980 and 1979.

Current earnings of $12,802 million in 1980 were 24.2 percent higher than those in 1979. The principal changes were increases of $2,407 million on U.S. government obligations, $55 million on foreign currencies, and $35 million on loans.

Current expenses were $791 million, or 14.1 percent more than in 1979. Assessments for expenditures of the Board of Governors amounted to $62 million.

The profit and loss account showed a net deduction of $115 million, primarily because of net losses of $199 million on sales of U.S. government obligations, net profits of $96 million on foreign exchange operations, and a one-time deduction of $8.5 million due to a change in the rate of depreciation on computers. Also included were payments of $634,950 to the Federal Home Loan Banks and $51,697 to the National Credit Union Administration for work performed for the Federal Reserve System under the credit restraint program.

Statutory dividends to member banks totaled $70 million, $3 million more than in 1979. This rise reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Federal Reserve Banks.

Earnings, Expenses, and Distribution of Net Earnings of Federal Reserve Banks, 1980 and 1979

Thousands of dollars

Item	1980	1979
Current earnings	12,802,319	10,310,148
Current expenses	791,157	693,559
Current net earnings	12,011,162	9,616,589
Net deduction from current net earnings	115,386	151,148
Assessments for expenditures of Board of Governors	62,231	50,530
Net earnings before payments to U.S. Treasury	11,833,545	9,414,911
Dividends paid	70,354	67,194
Payments to U.S. Treasury (interest on Federal Reserve notes)	11,706,370	9,278,576
Transferred to surplus	56,821	69,141

Payments to the Treasury as interest on Federal Reserve notes totaled $11,706 million for the year, compared with $9,279 million in 1979. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

Federal Reserve Bank Premises

During 1980, the Miami Branch occupied its new quarters; and the Board of Governors authorized construction of a new building for the Federal Reserve Bank of San Francisco.

Table 8, in the Statistical Tables section of this REPORT, shows the cost and book values of bank premises owned and occupied by the Federal Reserve Banks, and of real estate acquired for banking-house purposes.

A detailed statement of the earnings and expenses of each Federal Reserve Bank during 1980 is shown in table 6, and a condensed historical statement in table 7, in the Statistical Tables section of this REPORT. A detailed statement of assessments and expenditures of the Board of Governors appears in "Financial Statements," pages 240-44.

Holdings of Loans and Securities

The accompanying table shows holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past three years.

Average daily holdings of loans and securities during 1980 amounted to $129,750 million, an increase of $10,616 million over 1979. Holdings of U.S. government securities and of loans increased $10,632 million and $82 million respectively, and acceptances decreased $98 million.

The average rates of interest on holdings increased from 8.57 to 9.73 percent on U.S. government securities, from 10.54 to 12.39 percent on loans, and from 10.86 to 13.43 percent on acceptances.

Loans and Securities of Federal Reserve Banks, 1978-80

Item and year	Total	U.S. government securities [1]	Loans	Acceptances
	Millions of dollars			
Average daily holdings [2]				
1978	115,291	114,210	876	205
1979	119,134	117,564	1,338	232
1980	129,750	128,196	1,420	134
Earnings				
1978	8,449	8,367	66	16
1979	10,237	10,071	141	25
1980	12,673	12,479	176	18
	Percent			
Average rate of interest				
1978	7.33	7.33	7.58	7.85
1979	8.59	8.57	10.54	10.86
1980	9.77	9.73	12.39	13.43

1. Includes federal agency obligations.
2. Based on holdings at opening of business.

Loan Guarantees for Defense Production

Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force; the Defense Logistics Agency of the Department of Defense; the Departments of Commerce, Interior, Agriculture, and Energy; the General Services Administration; the National Aeronautics and Space Administration; and the Nuclear Regulatory Commission are authorized to guarantee loans for defense production that are made by commercial banks and other private financing institutions. The Federal Reserve Banks act as fiscal agents of the guaranteeing agencies under the Board's Regulation V. The maximum rate of interest that a financing institution may charge for a V-loan is the rate that institution currently charges its most creditworthy business customers for loans of comparable maturity (unless the governmental guarantor decides that a particular loan bearing a higher rate of interest is necessary for national defense purposes).

As of December 31, 1980, only three guaranteed loans, totaling $1,542,333, were outstanding. Of that amount, $472,465 was guaranteed.

Volume and Cost of Operations

Table 9 in the Statistical Tables section of this Report shows the volume of operations in the principal departments of the Federal Reserve Banks for 1977–80, and table 10 shows the cost of the larger operations of the Reserve Banks.

The number of checks handled rose by 4 percent to 16.5 billion. Transfers of funds through the Federal Reserve Banks increased by 23 percent to 43 million transfers, or $78.6 trillion in value. The number of pieces of paper money received and counted totaled 9.4 billion, an increase of 6.7 percent over 1979, and amounted to $104.3 billion. Issues, redemptions, and exchanges of U.S. government securities amounted to $10.3 trillion, an increase of 25 percent. The number of food stamps redeemed increased by 47 percent to 2.5 billion and totaled $9.3 billion, an increase of 19 percent.

Board of Governors

Financial Statements

The accounts of the Board for the years 1980 and 1979 were examined by Arthur Andersen & Co., independent public accountants.

AUDITORS' REPORT

Board of Governors of the
Federal Reserve System
Washington, D.C.

We have examined the balance sheets of the Board of Governors of the Federal Reserve System as of December 31, 1980 and 1979, and the related statements of assessments and expenditures and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Board of Governors of the Federal Reserve System as of December 31, 1980 and 1979, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Washington, D.C.,
February 18, 1981.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

Assets	December 31 1980	1979
Operating Fund		
Cash	$ 911,190	$ 1,771,762
Receivables and advances	1,339,004	486,531
Stockroom and cafeteria inventories at lower of cost (first-in, first-out) or market	155,456	126,984
Deferred publication costs (Note 3)	285,132	99,886
Total operating fund	2,690,782	2,485,163
Property Fund, at cost (Notes 1 and 4)		
Land and improvements	1,297,829	1,297,829
Buildings	60,337,691	60,162,893
Furniture and equipment	7,734,515	7,319,583
Computer equipment	5,892,842	3,616,332
Total property fund	75,262,877	72,396,637
	$ 77,953,659	$ 74,881,800

Liabilities and Fund Balances

	1980	1979
Operating Fund		
Liabilities		
Accounts payable	$ 2,280,725	$ 1,845,996
Accrued payroll and related taxes	740,093	1,825,760
	3,020,818	3,671,756
Commitments and contingencies (Notes 1, 2, and 4)		
Fund balance (Note 1)		
Balance, beginning of year	(1,186,593)	877,644
Assessments over (under) expenditures	856,557	(2,064,237)
Balance, end of year	(330,036)	(1,186,593)
Total operating fund	2,690,782	2,485,163
Property Fund (Note 1)		
Fund balance		
Balance, beginning of year	72,396,637	70,753,283
Additions—at cost	6,560,478	1,842,978
Disposals—at cost	(3,694,238)	(199,624)
Total property fund	75,262,877	72,396,637
	$ 77,953,659	$ 74,881,800

The accompanying notes are an integral part of these balance sheets.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF ASSESSMENTS AND EXPENDITURES

	Year ended December 31	
	1980	1979
ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS (Note 1)		
For Board expenses and property additions	$ 62,230,800	$ 50,529,700
For expenditures made on behalf of the Federal Reserve Banks for printing, issuance, and redemption of Federal Reserve notes	71,440,704	71,600,273
Total assessments	133,671,504	122,129,973
EXPENDITURES (Note 1)		
Board expenses		
Salaries	37,069,785	33,572,060
Retirement and insurance contributions (Note 2)	9,835,780	8,038,006
Travel	1,585,661	1,300,277
Professional fees	675,718	509,283
Contractual services	746,497	649,130
Printing and binding	1,651,924	1,420,993
Equipment, office space, and other rentals (Note 4)	791,098	1,199,560
Telephone and telegraph	685,918	658,307
Postage	641,658	619,523
Stationery, office, and other supplies	509,892	487,532
Heat, light, and power	966,949	925,294
Cafeteria operations, net	391,384	351,132
Repairs and maintenance	489,082	507,779
Books and subscriptions	162,870	145,794
Miscellaneous	443,494	419,377
	56,647,710	50,804,047
Board property additions, net of recoveries on disposals of $1,833,945 in 1980 and $53,088 in 1979 (Note 1)	4,726,533	1,789,890
	61,374,243	52,593,937
Expenditures for printing, issuance, and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks (Note 1)	71,440,704	71,600,273
Total expenditures	132,814,947	124,194,210
ASSESSMENTS OVER (UNDER) EXPENDITURES	$ 856,557	$ (2,064,237)

The accompanying notes are an integral part of these statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1980	1979
SOURCES OF FUNDS		
Assessments levied for Board expenses and property additions	$ 62,230,800	$ 50,529,700
Assessments levied for expenditures made on behalf of the Federal Reserve Banks	71,440,704	71,600,273
Recoveries from disposals of property	1,833,945	53,088
Total sources	135,505,449	122,183,061
APPLICATIONS OF FUNDS		
Board expenses	56,647,710	50,804,047
Expenditures for printing, issuance, and redemption of Federal Reserve notes on behalf of the Federal Reserve Banks	71,440,704	71,600,273
Additions to property		
Land and improvements	...	470
Buildings	199,512	939,757
Furniture and equipment	483,309	762,751
Computer equipment	5,877,657	140,000
	6,560,478	1,842,978
Decrease in liabilities	650,938	763,548
Increase in receivables, inventories, and deferred costs	1,066,191	197,763
Total applications	136,366,021	125,208,609
DECREASE IN CASH	(860,572)	(3,025,548)
CASH BALANCE, beginning of year	1,771,762	4,797,310
CASH BALANCE, end of year	$ 911,190	$ 1,771,762

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1980 AND 1979

(1) Significant Accounting Policies

In preparing its financial statements, the Board has applied accounting principles which, in its opinion, best reflect its financial position and results of operations. These accounting principles include certain principles which are generally accepted for organizations in the private sector and also certain principles which are generally accepted for governmental units. A summary of significant accounting policies is shown below.

Accounting for Assessments, Board Expenses, and Property Additions—Assessments made by the Board on the Federal Reserve Banks for Board expenses and additions to property are calculated based upon expected cash needs and are accrued when assessed. Board expenses and property additions are recorded on the accrual basis of accounting.

Accounting for Assessments and Expenditures Made on Behalf of the Federal Reserve Banks—Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issuance, and redemption of Federal Reserve notes are recorded on the cash basis. This treatment produces results which are not materially different from those which would have been produced using the accrual basis of accounting.

Accounting for Property—The Board does not charge depreciation as an operating expense. Property additions are charged to expense in the Operating Fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction of expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property accounts in the Property Fund are increased or reduced at cost, with a corresponding increase or decrease in the Property Fund balance.

Accounting for Employee Annual Leave—The Board does not accrue for salary expense related to employee annual leave that has been earned and would be paid if not taken prior to termination of employment. As of December 31, 1980, vested employee annual leave is approximately $2,489,000.

(2) Retirement Plans

There are two major retirement programs for employees of the Board. Approximately 86 percent of the employees are covered by the Federal Reserve Board Plan. All new members of the staff who do not come directly from a position in the government are covered by this Plan. The second Plan, the Civil Service Retirement Plan, covers all new employees who come directly from Federal government service. Employee contributions are the same percentage of salary under both Plans, and benefits are similar, being based upon the Civil Service Plan.

Under the Civil Service Plan, Board contributions match employee payroll deductions. Under the Federal Reserve Board Plan, the Board funds currently all normal costs and all past service costs, as actuarially determined.

Additionally, employees of the Board participate in the Federal Reserve System's Thrift Plan. Under this Plan, the Board adds a fixed percentage to allowable employee savings.

Board contributions to all retirement plans totaled approximately $9,110,000 in 1980 and $7,404,000 in 1979.

As of January 1, 1980 (date of most recent actuarial review), the accumulated plan benefits for the Federal Reserve Board Plan were as follows:

	As of January 1, 1980
Actuarial present value of accumulated plan benefits	
Vested	$43,991,227
Nonvested	3,161,989
	$47,153,216

The assumed rate of return used in determining the present value of accumulated plan benefits was 8 percent.

As of January 1, 1980, net assets available for benefits exceeded the actuarial present value of accumulated plan benefits.

(3) Federal Reserve Regulatory Service

The Board plans to begin publication of the *Federal Reserve Regulatory Service* in 1981. This monthly looseleaf service will contain Board regulations, interpretations, staff rulings, and other regulatory materials. The service will be distributed without charge throughout the Federal Reserve System and to federal depository libraries, and will also be sold to depository institutions, legal firms, and others. Costs incurred for the development of the service of $185,246 in 1980 and $99,886 in 1979 have been deferred and will be amortized against future subscription revenues beginning in 1981.

(4) Commitments and Contingencies

The Board leases office and computer equipment and office and storage space under leases which may generally be terminated within one year. At December 31, 1980, fixed future rental commitments are approximately $884,000 for 1981.

The Board has been named as a defendant in litigation involving challenges to, or appeals from, actions or proposed actions of the Board pursuant to statutory requirement or authorization. Such lawsuits generally seek injunctive or declaratory relief against the Board rather than monetary awards. It is the opinion of Board counsel that lawsuits involving monetary awards do not represent a material liability to the Board.

The Board does not maintain insurance against loss of its buildings and furniture and equipment from fire or other casualties. Coverage for other customarily insured risks, such as workers' compensation insurance and comprehensive general liability insurance, is carried by the Board.

Statistical Tables

1. Detailed Statement of Condition of All Federal Reserve Banks Combined, December 31, 1980

Thousands of dollars

ASSETS

Gold certificate account				11,160,104
Special drawing rights certificate account				2,518,000
Coin				394,198
Loans and securities				
To depository institutions			1,809,852	
Acceptances held under repurchase agreements			776,489	
Federal agency obligations				
Bought outright			8,739,259	
Held under repurchase agreements			525,050	
U.S. government securities				
Bought outright				
Bills	43,687,650			
Notes	58,718,310			
Bonds	16,892,536			
Total bought outright		119,298,496		
Held under repurchase agreement		2,029,250		
Total U.S. government securities			121,327,746	
Total loans and securities				133,178,396
Cash items in process of collection				
Transit items			12,497,582	
Other cash items			3,005,108	
Total cash items in process of collection				15,502,690
Bank premises				
Land			87,768	
Buildings (including vaults)		338,351		
Building machinery and equipment		118,701		
Construction account		63,308		
Total bank premises		520,360		
Less depreciation allowance		153,127	367,233	
Bank premises, net				455,001
Other assets				
Furniture and equipment		158,055		
Less depreciation		48,732		
Total furniture and equipment, net			109,323	
Denominated in foreign currencies [1]			5,103,256	
Interest accrued			2,062,123	
Premium on securities			270,362	
Overdrafts			123,812	
Prepaid expenses			53,996	
Suspense account			454,364	
Real estate acquired for banking-house purposes			14,798	
All other			86,911	
Total other assets				8,278,945
TOTAL ASSETS				171,487,334

1.—Continued

LIABILITIES		
Federal Reserve notes		
Outstanding (issued to Federal Reserve Banks)	140,184,518	
Less held by Federal Reserve Banks	15,941,812	
Total Federal Reserve notes, net		**124,242,706**
Deposits		
Depository institutions		**27,457,943**
U.S. Treasury—General account		**3,062,267**
Foreign—Official accounts		**411,441**
Other deposits		
Officers' and certified checks	41,225	
International organizations	191,828	
All other [2]	383,066	
Total other deposits		**616,119**
Deferred availability cash items		**11,032,882**
Other liabilities		
Exchange-translation account	−113,617	
Unearned discount	761	
Discount on securities	2,193,523	
Sundry items payable	26,282	
Suspense account	147,436	
All other	5,127	
Total other liabilities		**2,259,512**
TOTAL LIABILITIES		**169,082,870**
CAPITAL ACCOUNTS		
Capital paid in		**1,202,232**
Surplus		**1,202,232**
Other capital accounts [3]		
TOTAL LIABILITIES AND CAPITAL ACCOUNTS		**171,487,334**

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1. Includes $108.5 million in U.S. government securities held under repurchase agreement against receipt of foreign currencies and $2,993.6 million in foreign currencies warehoused for the U.S. Treasury.

2. In closing out the other capital accounts at year-end, the Reserve Bank earnings that are payable to the Treasury for December are included in this account pending payment.

3. During the year, this item includes the net earnings, expenses, profit and loss items, and accrued dividends, which are closed out on Dec. 31; see table 7 in the Statistical Tables section of this REPORT.

NOTE. Amounts in boldface type indicate items in the Board's weekly statement of condition of the Federal Reserve Banks.

BEST DOCUMENT AVAILABLE

2. Statement of Condition of Each Federal Reserve Bank, December 31, 1980 and 1979

Millions of dollars

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979
ASSETS												
Gold certificate account	11,161	11,112	577	992	3,013	2,841	560	924	847	646	961	1,293
Special drawing rights certificate account	2,518	1,800	128	93	665	459	121	91	201	149	229	161
Coin	397	403	27	25	24	21	19	21	49	42	42	45
Loans												
Secured by U.S. government and agency obligations	1,594	428	106	31	663	54	37	16	70	55	189	61
Other	215	1,026	0	6	0	457	17	0	132	0	0	104
Acceptances held under repurchase agreement	776	704	0	0	776	704	0	0	0	0	0	0
Federal agency obligations												
Bought outright	8,739	8,216	399	397	2,272	2,025	379	393	660	660	718	673
Held under repurchase agreement	525	493	0	0	525	493	0	0	0	0	0	0
U.S. government securities												
Bought outright[1]	119,299	116,291	5,450	5,625	31,010	28,664	5,179	5,560	9,013	9,343	9,799	9,524
Held under repurchase agreement	2,029	1,167	0	0	2,029	1,167	0	0	0	0	0	0
Total loans and securities	133,177	128,325	5,955	6,059	37,275	33,564	5,612	5,969	9,875	10,058	10,706	10,362
Cash items in process of collection	15,504	15,694	403	457	2,351	2,090	425	440	479	662	3,035	2,822
Bank premises	457	408	100	103	20	14	53	54	24	23	89	83
Other assets												
Denominated in foreign currencies[2]	5,104	2,483	145	77	1,374	646	195	102	414	211	255	132
All other	3,177	2,722	122	164	751	575	151	160	294	160	252	202
Interdistrict Settlement Account	0	0	−82	−871	+2,859	+1,266	−837	−739	−322	−628	+219	−362
TOTAL ASSETS	171,495	162,947	7,375	7,099	48,332	41,476	6,299	7,022	11,861	11,323	15,788	14,738

LIABILITIES												
Federal Reserve notes	124,241	113,355	6,191	5,767	35,601	29,935	5,276	5,457	9,463	9,027	10,786	10,304
Deposits												
Reserve accounts [3]	27,456	29,792	743	661	6,521	7,321	576	825	1,529	1,101	1,637	1,308
U.S. Treasury—General account	3,062	4,075	0	258	3,062	1,252	0	249	0	358	0	316
Foreign—Official accounts	411	429	10	9	145	207	14	12	30	26	18	16
All other	617	1,412	11	42	437	719	8	45	16	73	24	74
Total deposits	31,546	35,708	764	970	10,165	9,499	598	1,131	1,575	1,558	1,679	1,714
Deferred-availability cash items	11,037	8,927	257	152	1,384	711	237	239	437	376	2,989	2,431
Other liabilities and accrued dividends [4]	2,265	2,667	97	144	570	751	96	105	196	172	210	173
TOTAL LIABILITIES	169,089	160,657	7,309	7,033	47,720	40,896	6,207	6,932	11,671	11,133	15,664	14,622
CAPITAL ACCOUNTS												
Capital paid in	1,203	1,145	33	33	306	290	46	45	95	95	62	58
Surplus	1,203	1,145	33	33	306	290	46	45	95	95	62	58
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	171,495	162,947	7,375	7,099	48,332	41,476	6,299	7,022	11,861	11,323	15,788	14,738
FEDERAL RESERVE NOTE STATEMENT												
Federal Reserve notes												
Issued to Federal Reserve Bank by Federal Reserve Agent and outstanding	140,184	125,301	7,007	6,405	38,710	32,636	6,515	6,142	10,225	9,615	12,006	11,022
Less held by issuing Bank, and forwarded for redemption [5]	15,943	11,946	816	638	3,109	2,701	1,239	685	762	588	1,220	718
Federal Reserve notes, net [6]	124,241	113,355	6,191	5,767	35,601	29,935	5,276	5,457	9,463	9,027	10,786	10,304
Collateral held by Federal Reserve for notes issued to Bank												
Gold certificate account	11,161	11,112	577	992	3,013	2,841	560	924	847	646	961	1,293
Special drawing rights certificate account	2,518	1,800	128	93	665	459	121	91	201	149	229	161
Other eligible assets	0	894	0	31	0	318	0	14	0	54	0	131
U.S. government and agency securities	110,562	111,495	5,486	5,289	31,923	29,018	4,595	5,113	8,415	8,766	9,596	9,437
TOTAL COLLATERAL	124,241	125,301	6,191	6,405	35,601	32,636	5,276	6,142	9,463	9,615	10,786	11,022

For notes see end of table.

2. Statement of Condition of Each Federal Reserve Bank, December 31, 1980 and 1979—Continued

Millions of dollars

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979
ASSETS														
Gold certificate account	465	525	1,722	1,591	465	474	225	232	501	473	572	451	1,253	670
Special drawing rights certificate account	79	64	411	300	106	79	42	32	111	75	132	86	293	211
Coin	38	39	23	31	24	33	12	17	44	49	30	29	65	51
Loans														
Secured by U.S. government and agency obligations	81	11	183	73	51	14	25	21	88	28	46	27	55	37
Other	0	111	3	78	0	47	9	10	50	22	1	107	3	84
Acceptances held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Federal agency obligations														
Bought outright	317	340	1,373	1,304	351	349	156	183	409	363	519	448	1,186	1,081
Held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
U.S. government securities														
Bought outright [1]	4,323	4,819	18,746	18,454	4,794	4,948	2,131	2,585	5,591	5,134	7,080	6,336	16,183	15,299
Held under repurchase agreement	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total loans and securities	4,721	5,281	20,305	19,909	5,196	5,358	2,321	2,799	6,138	5,547	7,646	6,918	17,427	16,501
Cash items in process of collection	2,041	1,563	1,730	2,114	656	690	699	994	1,521	1,511	1,370	1,519	794	832
Bank premises	35	31	16	16	14	13	28	28	22	20	13	12	43	11
Other assets														
Denominated in foreign currencies [2]	379	186	729	375	150	77	160	79	215	104	294	144	794	350
All other	157	151	417	395	102	95	84	80	126	135	157	137	564	468
Interdistrict Settlement Account	392	−446	−967	−769	−391	−346	−448	−765	−71	+366	+401	+329	+31	+2,965
TOTAL ASSETS	7,523	7,394	24,386	23,962	6,322	6,473	3,123	3,496	8,607	8,280	10,615	9,625	21,264	22,059

LIABILITIES														
Federal Reserve notes	3,670	3,550	19,437	18,505	4,835	4,748	1,807	1,909	5,758	5,000	7,198	5,959	14,219	13,194
Deposits														
Reserve accounts [3]	1,852	2,151	3,495	3,689	742	840	655	675	1,350	1,459	2,312	2,471	6,044	7,291
U.S. Treasury—General account	0	230	0	284	0	225	0	175	0	306	0	85	0	337
Foreign	27	23	52	45	11	9	11	10	15	13	21	17	57	42
All other	8	33	39	150	9	40	5	22	12	42	19	51	29	121
Total deposits	1,887	2,437	3,586	4,168	762	1,114	671	882	1,377	1,820	2,352	2,624	6,130	7,791
Deferred-availability cash items	1,667	1,135	672	590	569	457	529	572	1,269	1,264	790	798	237	202
Other liabilities and accrued dividends [4]	119	98	337	363	84	84	40	61	99	98	127	110	290	508
TOTAL LIABILITIES	7,343	7,220	24,032	23,626	6,250	6,403	3,047	3,424	8,503	8,182	10,467	9,491	20,876	21,695
CAPITAL ACCOUNTS														
Capital paid in	90	87	177	168	36	35	38	36	52	49	74	67	194	182
Surplus	90	87	177	168	36	35	38	36	52	49	74	67	194	182
Other capital accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	7,523	7,394	24,386	23,962	6,322	6,473	3,123	3,496	8,607	8,280	10,615	9,625	21,264	22,059
FEDERAL RESERVE NOTE STATEMENT														
Federal Reserve notes														
Issued to Federal Reserve Bank by Federal Reserve Agent and outstanding	5,678	5,242	21,021	19,535	5,606	5,289	2,265	2,530	6,750	5,803	8,216	6,551	16,185	14,531
Less held by issuing Bank, and forwarded for redemption [5]	2,008	1,692	1,584	1,030	771	541	458	621	992	803	1,018	592	1,966	1,337
Federal Reserve notes, net [6]	3,670	3,550	19,437	18,505	4,835	4,748	1,807	1,909	5,758	5,000	7,198	5,959	14,219	13,194
Collateral held by Federal Reserve Agent for notes issued to Bank														
Gold certificate account	465	525	1,722	1,591	465	474	225	232	501	473	572	451	1,253	670
Special drawing rights certificate account	79	64	411	300	106	79	42	32	111	75	132	86	293	211
Other eligible assets	0	9	0	89	0	51	0	24	0	42	0	94	0	37
U.S. government and agency securities	3,126	4,644	17,304	17,555	4,264	4,685	1,540	2,242	5,146	5,213	6,494	5,920	12,673	13,613
TOTAL COLLATERAL	3,670	5,242	19,437	19,535	4,835	5,289	1,807	2,530	5,758	5,803	7,198	6,551	14,219	14,531

1. *Includes* securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

2. Includes U.S. government securities held under repurchase agreement against receipt of foreign currencies and foreign currencies warehoused for the U.S. Treasury. Assets shown in this line are revalued monthly at market exchange rates.

3. Includes reserves of member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks.

4. Includes exchange-translation account reflecting the monthly revaluation at market exchange rates of foreign exchange commitments.

5. Beginning September 1980, Federal Reserve notes held by the Reserve Banks are exempt from the collateral requirement.

6. Includes Federal Reserve notes held by U.S. Treasury and by Federal Reserve Banks other than the issuing Bank.

3 Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1978–80

Millions of dollars

Description	Coupon (per-cent)	December 31			Increase or decrease (–)	
		1980	1979	1978	1980	1979
U.S. government securities—Total	....	**121,328**	**117,458**	**110,562**	**3,870**	**6,896**
Within 90 days	....	28,279	26,841	24,097	1,438	2,744
91 days to 1 year	....	30,187	37,230	29,465	–7,043	7,765
1-5 years	....	34,505	27,864	31,608	6,641	–3,744
5-10 years	....	13,354	12,774	14,717	580	–1,943
Over 10 years	....	15,002	12,748	10,675	2,254	2,073
Held outright [1]						
Treasury bills—Total	....	43,688	45,244	42,159	–1,556	3,085
Within 3 months	....	22,929	23,093	20,661	–164	2,432
3-6 months	....	14,564	10,706	14,911	3,858	–4,205
After 6 months	....	6,195	11,445	6,586	–5,250	4,859
Treasury notes—Total	....	58,718	56,494	54,855	2,224	1,639
Dec. 31, 1978—H	8⅛	....	....	244	....	–244
U	5¼	....	....	643	....	–643
Jan. 31, 1979—L	5⅞	....	....	151	....	–151
Feb. 15, 1979—H	7	....	....	1,731	....	–1,731
Feb. 28, 1979—M	5⅞	....	....	368	....	–368
Mar. 31, 1979—N	6	....	....	640	....	–640
Apr. 30, 1979—P	5⅞	....	....	159	....	–159
May 15, 1979—D	7⅞	....	....	550	....	–550
May 31, 1979—Q	6⅛	....	....	239	....	–239
June 30, 1979—E	7¾	....	....	157	....	–157
R	6⅛	....	....	291	....	–291
July 31, 1979—S	6¼	....	....	159	....	–159
Aug. 15, 1979—A	6¼	....	....	669	....	–669
J	6⅞	....	....	880	....	–880
Aug. 31, 1979—T	6⅝	....	....	440	....	–440
Sept. 30, 1979—F	8½	....	....	230	....	–230
U	6⅝	....	....	333	....	–333
Oct. 31, 1979—V	7¼	....	....	455	....	–455
Nov. 15, 1979—B	6⅝	....	....	890	....	–890
K	6¼	....	....	250	....	–250
C	7	....	....	366	....	–366
Nov. 30, 1979—W	7⅛	....	....	475	....	–475
Dec. 31, 1979—G	7½	....	....	137	....	–137
X	7⅛	....	....	568	....	–568
Jan. 31, 1980—K	7½	....	403	365	–403	38
Feb. 15, 1980—G	6½	....	1,512	1,461	–1,512	51
Feb. 29, 1980—L	7⅝	....	399	334	–399	65
Mar. 31, 1980—C	7½	....	809	724	–809	85
Apr. 30, 1980—N	7¾	....	457	437	–457	20
May 15, 1980—A	6⅞	....	5,273	5,272	–5,273	1
May 31, 1980—P	8	....	177	177	–177	0
June 30, 1980—D	7⅝	....	322	294	–322	28
Q	8¼	....	859	858	–859	1
July 31, 1980—R	8½	....	714	699	–714	15
Aug. 15, 1980—B	9	....	2,435	2,435	–2,435	0
H	6¾	....	688	657	–688	31
Aug. 31, 1980—S	8⅜	....	461	416	–461	45
Sept. 30, 1980—E	6⅞	....	153	153	–153	0
T	8⅝	....	725	686	–725	39
Oct. 31, 1980—U	8⅞	....	354	309	–354	45
Nov. 15, 1980—J	7⅛	....	700	693	–700	7
Nov. 30, 1980—V	9¼	....	307	250	–307	57
Dec. 31, 1980—F	5⅞	....	33	33	–33	0
W	9⅞	....	538	0	–538	538
Jan. 31, 1981—P	9¾	461	383	0	78	383
Feb. 15, 1981—A	7	374	351	351	23	0
C	7⅜	1,101	1,074	1,007	27	67
Feb. 28, 1981—Q	9¾	426	397	0	29	397
Mar. 31, 1981—H	6⅞	226	218	203	8	15
R	9⅝	733	698	0	35	698
Apr. 30, 1981—S	9¾	261	159	0	102	159
May 15, 1981—D	7⅜	191	185	182	6	3
M	7½	1,071	1,041	1,034	30	7
May 31, 1981—T	9¾	411	313	0	98	313
June 30, 1981—J	6¾	80	80	70	0	10
U	9⅛	332	306	0	26	306
July 31, 1981—V	9⅜	351	311	0	40	311
Aug. 15, 1981—F	7⅝	364	343	297	21	46
N	8⅜	1,364	1,301	1,297	63	4

3.—Continued

Description	Coupon (percent)	December 31			Increase or decrease (–)	
		1980	1979	1978	1980	1979
U.S. government securities—Cont.						
Treasury notes—Cont.						
Aug. 31, 1981—W	9⅝	571	563	0	8	563
Sept. 30, 1981—K	6¾	181	131	72	50	59
X	10⅛	408	405	0	3	405
Oct. 31, 1981—Y	12⅝	596	527	0	69	527
Nov. 15, 1981—B	7¾	1,600	1,600	1,597	0	3
G	7	119	116	113	3	3
Nov. 30, 1981—Z	12⅛	649	594	0	55	594
Dec. 31, 1981—L	7¼	177	167	124	10	43
AB	11⅜	577	571	0	6	571
Jan. 31, 1982—N	11½	462	0	0	462	0
Feb. 15, 1982—D	6⅛	59	59	56	0	3
Feb. 28, 1982—P	13⅞	545	0	0	545	0
Mar. 31, 1982—G	7⅞	245	245	235	0	10
Q	15	632	0	0	632	0
Apr. 30, 1982—R	11⅜	496	0	0	496	0
May 15, 1982—A	8	1,447	1,447	1,444	0	3
E	7	53	53	30	0	23
K	9¼	1,019	1,018	1,018	1	0
May 31, 1982—S	9⅜	359	0	0	359	0
June 30, 1982—H	8¼	119	115	93	4	22
T	8⅝	705	0	0	705	0
July 31, 1982—U	8⅞	1,000	0	0	1,000	0
Aug. 15, 1982—B	8⅛	1,162	1,162	1,161	0	1
M	9	1,074	1,068	0	6	1,068
Aug. 31, 1982—V	11⅛	570	0	0	570	0
Sept. 30, 1982—J	8⅜	76	64	62	12	2
W	11⅞	550	0	0	550	0
Oct. 31, 1982—X	12⅛	420	0	0	420	0
Nov. 15, 1982—C	7⅞	770	770	754	0	16
F	7⅛	239	227	209	12	18
Nov. 30, 1982—Y	13⅞	364	0	0	364	0
Dec. 31, 1982—L	9⅜	459	459	0	0	459
Z	15⅛	350	0	0	350	0
Feb. 15, 1983—A	8	2,144	2,138	2,136	6	2
Mar. 31, 1983—D	9¼	12	9	0	3	9
May 15, 1983—C	7⅞	113	95	89	18	6
G	11⅝	851	837	0	14	837
June 30, 1983—E	8⅞	426	408	0	18	408
Aug. 15, 1983—K	9¼	3,189	0	0	3,189	0
J	11⅞	1,079	0	0	1,079	0
Sept. 30, 1983—F	9¾	284	284	0	0	284
Nov. 15, 1983—B	7	101	101	95	0	6
L	9⅞	1,935	0	0	1,935	0
Dec. 31, 1983—H	10½	221	156	0	65	156
Feb. 15, 1984—A	7¼	3,913	3,913	3,900	0	13
Mar. 31, 1984—D	14¼	531	0	0	531	0
May 15, 1984—C	9¼	69	69	0	0	69
G	13¼	500	0	0	500	0
June 30, 1984—E	8⅞	505	0	0	505	0
Aug. 15, 1984—B	7¼	385	385	372	0	13
Sept. 30, 1984—F	12⅛	339	0	0	339	0
Dec. 31, 1984—H	14	252	0	0	252	0
Feb. 15, 1985—A	8	1,448	1,448	1,448	0	0
May 15, 1985—C	10⅜	38	38	0	0	38
D	14⅜	260	0	0	260	0
Aug. 15, 1985—B	8¼	1,624	1,624	1,618	0	6
E	9⅝	79	0	0	79	0
May 15, 1986—A	7⅞	1,158	1,137	1,086	21	51
Aug. 15, 1986—B	8	1,987	1,987	1,978	0	9
Feb. 15, 1987—B	9	1,659	1,657	0	2	1,657
May 15, 1987—C	12	498	0	0	498	0
Nov. 15, 1987—A	7⅝	616	616	616	0	0
May 15, 1988—A	8¼	1,754	1,751	1,744	3	7
Nov. 15, 1988—B	8¾	1,139	1,130	1,087	9	43
May 15, 1989—A	9¼	459	451	0	8	451
Nov. 15, 1989—B	10¾	1,942	422	0	1,520	422
Aug. 15, 1990—A	10¾	1,186	0	0	1,186	0
Nov. 15, 1990—B	13	220	0	0	220	0

For notes see end of table.

3. Federal Reserve Bank Holdings of U.S. Government and Federal Agency Securities, December 31, 1978-80—Continued

Millions of dollars

Description	Coupon (percent)	December 31			Increase or decrease (−)	
		1980	1979	1978	1980	1979
U.S. government securities—Cont.						
Treasury bonds—Total	....	16,893	14,553	12,465	2,340	2,088
1975-85—May	4¼	156	156	156	0	0
1978-83—June	3¼	87	87	87	0	0
1980—Feb.	4	0	266	266	−266	0
Nov.	3½	0	74	74	−74	0
1981—Aug.	7	124	123	123	1	0
1982—Feb.	6⅜	386	386	371	0	15
1984—Aug.	6⅜	355	355	355	0	0
1985—May	3¼	47	47	47	0	0
1986—Nov.	6⅛	310	310	310	0	0
1987-92—Aug.	4¼	509	509	509	0	0
1988-93—Feb.	4	24	24	24	0	0
Aug.	7½	384	384	380	0	4
1989-94—May	4⅛	77	77	77	0	0
1990—Feb.	3½	84	84	84	0	0
May	8¼	342	342	342	0	0
1992—Aug.	7¼	92	92	91	0	1
1993—Feb.	6¾	70	70	70	0	0
	7⅞	136	136	127	0	9
Aug.	8⅝	131	118	61	13	57
Nov.	8⅝	159	144	121	15	23
1993-98—May	7	157	157	157	0	0
1994-99—May	8½	1,004	1,004	999	0	5
1994—Feb.	9	84	60	0	24	60
Aug.	8¾	42	32	0	10	32
Nov.	10⅛	34	0	0	34	0
1995—Feb.	3	2	2	2	0	0
	10½	28	0	0	28	0
May	10⅜	7	0	0	7	0
	12⅝	282	0	0	282	0
1995-2000-Feb.	7⅞	585	566	562	19	4
Aug.	8⅜	2,053	2,042	2,004	11	38
1996-2001—Aug.	8	489	488	480	1	8
1998—Nov.	3½	31	31	31	0	0
2000-05—May	8¼	1,493	1,493	1,493	0	0
2002-07—Feb.	7⅝	1,389	1,389	1,389	0	0
Nov.	7⅞	265	265	265	0	0
2003-08—Aug.	8⅜	749	747	747	2	0
Nov.	8¾	1,534	1,534	661	0	873
2004-09—May	9⅛	633	633	0	0	633
Nov.	10⅜	820	326	0	494	326
2005-10—Feb.	11¾	512	0	0	512	0
May	10	1,070	0	0	1,070	0
Nov.	12¾	159	0	0	159	0
Held under RPs	....	2,029	1,168	1,084	861	84
Federal agency obligations						
Held outright—Total	....	8,739	8,216	7,896	523	320
Banks for Cooperatives	....	35	35	85	0	−50
Export-Import Bank	....	16	16	69	0	−53
Federal Farm Credit Banks	....	1,459	951	68	508	883
Federal Home Loan Banks	....	2,426	2,271	2,189	155	82
Federal Intermediate Credit Banks	....	75	97	466	−22	−369
Federal Land Banks	....	988	1,163	1,377	−175	−214
Farmers Home Administration	....	187	196	196	−9	0
Federal National Mortgage Association	....	3,305	3,237	3,196	68	41
Government National Mortgage Association—PCs	....	83	83	83	0	0
U.S. Postal Service	....	37	37	37	0	0
Washington Metropolitan Area Transit Authority	....	117	117	117	0	0
General Services Administration	....	14	14	14	0	0
Held under RPs	....	525	494	133	31	361

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1. Excludes securities sold under matched sale-purchase agreements, and securities held under repurchase agreements.

NOTE. Details may not add to totals because of rounding.

4 Federal Reserve Bank Holdings of Special Short-Term Treasury Certificates Purchased Directly from the United States, 1972–80

Millions of dollars

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1972		1973		1975		1977	
Sept. 12	38	Sept. 15	319	Mar. 15	820	Sept. 30	2,500
		16[1]	319	16[1]	820	Oct. 1	2,500
1973				17	832	2[1]	2,500
Aug. 15	351	1974				3[1]	2,500
Sept. 7	73	Nov. 6	131	Aug. 5	656		
8	73			6	965	1979	
9[1]	73	1975		7	474	Mar. 31	2,600
10	42	Mar. 11	626	11	204		
11	485	12	1,043	12	543	Apr. 1[1]	2,600
12	169	13	315	13	399	2	1,283
14	319	14	820	15	481	3	376

1. Sunday or holiday.

NOTE. Under authority of section 14(b) of the Federal Reserve Act.

Throughout the period shown the interest rate paid on such securities was ¼ percent below the prevailing discount rate of the Federal Reserve Bank of New York. For data for earlier years, beginning with 1942, see previous ANNUAL REPORT. No holdings in 1980 nor on dates not shown.

5. Open Market Transactions of the Federal Reserve System, 1980

Millions of dollars

Type of transaction	Jan.	Feb.	Mar.	Apr.
U.S. government securities				
Outright transactions				
(excluding matched sale-purchase transactions)				
Treasury bills				
Gross purchases	0	187	1,370	2,428
Gross sales	1,722	1,590	0	108
Exchange	0	0	0	0
Redemptions	790	400	0	0
Others within 1 year				
Gross purchases	0	0	292	109
Gross sales	0	0	0	0
Maturity shift	383	1,822	921	179
Exchange	−403	−2,177	−809	−459
Redemptions	0	0	0	0
1 to 5 years				
Gross purchases	0	0	355	373
Gross sales	0	0	0	0
Maturity shift	−383	−374	−921	−179
Exchange	403	1,377	809	459
5 to 10 years				
Gross purchases	0	0	107	62
Gross sales	0	0	0	0
Maturity shift	0	−1,364	0	0
Exchange	0	450	0	0
Over 10 years				
Gross purchases	0	0	81	64
Gross sales	0	0	0	0
Maturity shift	0	−84	0	0
Exchange	0	350	0	0
All maturities				
Gross purchases	0	187	2,206	3,036
Gross sales	1,722	1,590	0	108
Redemptions	790	400	0	0
Matched sale-purchase transactions				
Gross sales	53,025	54,541	55,658	57,316
Gross purchases	55,557	54,584	54,636	57,479
Repurchase agreements				
Gross purchases	5,704	5,407	6,682	3,029
Gross sales	6,872	4,787	6,379	3,952
Net change in U.S. government securities	−1,148	−1,140	1,486	2,168
Federal agency obligations				
Outright transactions				
Gross purchases	0	0	0	668
Gross sales	0	0	0	0
Redemptions	0	*	5	2
Repurchase agreements				
Gross purchases	3,049	2,403	1,883	483
Gross sales	3,543	2,372	1,834	563
Net change in federal agency obligations	−494	31	45	586
Bankers acceptances				
Outright transactions, net	0	0	0	0
Repurchase agreements, net	−704	205	−34	−171
Net change in bankers acceptances	−704	205	−34	−171
Total net change in System Open Market Account	**−2,345**	**−903**	**1,497**	**2,582**

5.—Continued

May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
838	322	0	0	200	991	0	1,331	7,668
232	0	2,264	47	237	531	600	0	7,331
0	0	0	0	0	0	0	0	0
0	0	950	0	0	700	500	49	3,389
155	121	0	137	0	0	0	100	912
0	0	0	0	0	0	0	0	0
1,670	412	311	2,423	589	596	2,368	754	12,427
−5,276	−1,479	−788	−3,134	−1,459	−420	−879	−967	−18,251
0	0	0	0	0	0	0	0	0
405	465	0	541	0	0	0	0	2,138
0	0	0	0	0	0	0	0	0
−1,302	−412	−311	−720	−589	−596	−2,368	−754	−8,909
3,000	1,479	788	1,750	1,459	420	500	967	13,412
133	164	0	236	0	0	0	0	703
0	0	0	0	0	0	0	0	0
25	0	0	−1,703	0	0	0	0	−3,092
1,300	0	0	1,000	0	0	220	0	2,970
216	129	0	320	0	0	0	0	811
0	0	0	0	0	0	0	0	0
342	0	0	0	0	0	0	0	−426
976	0	0	384	0	0	159	0	1,869
1,747	1,200	0	1,234	200	991	0	1,431	12,232
232	0	2,264	47	237	531	600	0	7,331
0	0	950	0	0	700	500	49	3,389
49,934	50,590	48,370	72,315	55,766	55,787	40,944	79,754	674,000
50,965	52,076	46,023	71,645	56,207	56,462	41,129	78,734	675,496
7,717	12,810	10,719	2,783	3,203	20,145	24,169	11,534	113,902
4,811	15,258	10,110	3,016	2,743	19,808	23,924	11,381	113,040
5,452	−238	−4,952	284	863	771	−670	516	3,869
0	0	0	0	0	0	0	0	668
0	0	0	0	0	0	0	0	0
0	2	2	*	91	21	0	22	145
1,611	3,035	1,737	1,082	977	5,922	4,825	1,889	28,895
1,258	3,351	1,242	1,132	1,188	5,734	4,880	1,767	28,863
353	318	492	−50	−302	167	−55	99	555
0	0	0	0	0	0	0	0	0
366	−7	−64	−33	222	67	−43	253	73
366	−7	−64	−33	222	67	−43	253	73
6,171	**−73**	**−4,523**	**202**	**784**	**1,005**	**−768**	**868**	**4,497**

* Less than $500,000.

NOTE. Sales, redemptions and negative figures reduce System holdings; all other figures increase them. Details may not add to totals because of rounding.

6. Earnings and Expenses of Federal Reserve Banks, 1980

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
CURRENT EARNINGS					
Loans	175,835,241	11,139,456	19,440,276	31,248,389	10,369,402
Acceptances	18,214,755	....	18,214,755	....	....
U.S. government securities	12,478,609,389	576,017,695	3,260,843,560	554,382,814	953,866,750
Foreign currencies	123,354,719	3,487,982	34,073,256	4,689,169	9,974,390
All other	6,305,232	200,091	3,321,053	191,051	259,345
TOTAL	12,802,319,336	590,845,224	3,335,892,900	590,511,423	974,469,887
CURRENT EXPENSES					
Salaries	385,640,414	25,301,019	86,062,107	18,792,631	23,159,590
Retirement and other benefits	110,792,473	7,554,588	24,353,744	6,295,654	6,963,759
Fees	6,586,411	288,692	2,123,210	265,401	353,605
Travel	12,702,997	670,728	2,080,450	401,782	908,627
Postage	14,422,139	641,192	2,207,436	593,033	891,334
Other shipping expenses	76,076,259	4,348,228	10,054,223	3,266,678	5,603,200
Communications	13,823,022	819,875	3,013,580	647,729	793,501
Materials and supplies	33,737,841	2,331,977	6,415,326	1,635,949	1,988,271
Bank premises					
Taxes on real estate	15,102,618	2,922,503	2,524,679	1,225,982	903,700
Depreciation	9,760,793	1,874,955	244,797	1,461,057	670,076
Utilities	16,351,188	1,845,108	3,591,791	1,651,807	997,768
Rent	10,077,225	405,611	6,336,999	24,400	141,319
Other building expenses	7,162,771	479,951	790,023	760,558	281,210
Furniture and equipment					
Rentals	41,079,873	1,595,798	7,395,275	1,070,464	3,107,261
Depreciation	19,387,239	1,534,408	3,228,062	1,524,508	1,356,580
Cost of Federal Reserve currency	73,124,423	3,778,604	14,844,238	3,361,052	4,895,982
All other	24,813,621	1,992,513	5,002,306	1,318,631	1,659,698
Contra—Expense [1]	−2,145,520	−149,758	....	−1,504	−152,159
TOTAL [2]	865,969,678	58,235,992	180,268,246	44,295,812	54,523,322
Reimbursements and recoveries	74,812,417	7,561,496	16,670,575	4,100,917	5,754,554
Net expenses	791,157,261	50,674,496	163,597,671	40,194,895	48,768,768

6.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
17,374,400	13,702,974	27,056,315	6,852,559	5,049,341	8,398,459	12,247,609	12,956,061
	....	....	....	....	....	....	....
1,016,533,101	468,479,938	1,952,245,414	506,659,174	237,724,958	570,198,456	716,797,931	1,664,859,598
6,128,922	9,126,749	17,548,677	3,605,830	3,843,798	5,162,833	7,082,798	18,630,315
253,335	436,372	568,053	190,912	294,692	201,257	208,714	180,357
1,040,289,758	491,746,033	1,997,418,459	517,308,475	246,912,789	583,961,005	736,337,052	1,696,626,331
29,827,709	33,987,415	48,589,427	19,758,996	16,668,502	25,080,619	20,605,461	37,806,938
8,034,429	9,490,398	14,362,834	5,865,030	4,224,663	7,269,543	5,283,737	11,094,094
451,717	311,584	460,164	492,289	406,800	360,847	334,662	737,440
1,041,490	1,279,782	1,648,821	629,220	659,834	1,104,674	808,531	1,469,058
1,132,571	1,171,737	1,525,752	1,120,328	921,460	1,721,673	787,029	1,708,594
8,747,939	7,691,493	10,797,986	4,542,386	2,915,567	4,862,494	4,977,877	8,268,188
1,059,833	1,462,549	1,561,741	535,369	651,392	916,951	984,312	1,376,190
3,073,162	3,152,089	4,379,240	1,902,314	1,186,339	2,404,304	2,154,696	3,114,174
1,203,532	742,221	2,058,707	386,358	1,602,655	470,276	508,049	553,956
2,166,106	469,077	500,701	359,991	831,581	540,090	187,832	454,530
1,687,297	1,282,017	1,415,824	820,941	522,102	820,339	804,916	911,278
827,767	437,958	906,911	151,013	61,501	32,338	28,811	722,597
739,608	435,295	1,443,511	489,469	498,620	283,261	652,877	308,388
4,823,665	4,237,755	6,761,526	2,535,762	1,128,425	3,088,142	1,998,582	3,337,218
1,255,120	1,338,247	1,174,918	1,146,798	744,222	1,638,700	1,340,071	3,105,605
8,191,403	6,631,342	8,549,266	2,879,262	1,347,936	3,952,861	5,143,576	9,548,901
1,797,747	2,254,720	1,582,742	1,195,216	1,226,870	1,568,760	2,295,958	2,918,460
194,432	244,947	−323,156	−140,022	−57,212	−484,139	−155,735	−242,456
73,340,554	76,130,732	107,396,915	44,670,720	35,541,257	55,631,733	48,741,242	87,193,153
5,431,132	5,958,351	8,529,467	3,612,000	2,368,433	4,502,415	2,838,362	7,484,715
67,909,422	70,172,381	98,867,448	41,058,720	33,172,824	51,129,318	45,902,880	79,708,438

For notes see end of table.

6. Earnings and Expenses of Federal Reserve Banks, 1980—Continued

Dollars

Item	Total	Boston	New York	Philadelphia	Cleveland
PROFIT AND LOSS					
Current net earnings	12,011,162,076	540,170,728	3,172,295,229	550,316,528	925,701,119
Additions to current net earnings					
Profit on foreign currency transactions [3]	96,118,696	2,787,442	24,318,030	3,748,629	7,977,852
All other	4,502,792	22,958	209,126	9,319	16,870
Total additions	100,621,488	2,810,400	24,527,156	3,757,948	7,994,722
Deductions from current net earnings					
Losses on sales of U.S. government securities	199,348,220	9,403,767	50,330,254	9,141,236	15,589,711
All other	16,659,123	316,466	1,315,286	413,798	1,522,934
Total deductions	216,007,343	9,720,233	51,645,540	9,555,034	17,112,645
Net deductions from current net earnings	115,385,855	6,909,833	27,118,384	5,797,086	9,117,923
Assessment for expenditures of Board of Governors [4]	62,230,800	1,775,100	15,742,400	2,428,200	5,119,700
Net earnings before payments to U.S. Treasury	11,833,545,421	531,485,795	3,129,434,445	542,091,242	911,463,496
Dividends paid	70,354,516	1,979,868	17,866,143	2,649,084	5,666,776
Payments to U.S. Treasury (interest on Federal Reserve notes)	11,706,369,955	529,189,477	3,095,446,252	538,877,458	905,500,670
Transferred to surplus	56,820,950	316,450	16,122,050	564,700	296,050
Surplus, January 1	1,145,411,250	32,797,800	289,884,750	45,389,450	94,893,900
Surplus, December 31	1,202,232,200	33,114,250	306,006,800	45,954,150	95,189,950

6.—Continued

Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
972,380,336	421,573,652	1,898,551,011	476,249,755	213,739,966	532,831,687	690,434,172	1,616,917,893
4,902,053	7,305,021	14,033,330	2,883,561	3,075,798	4,133,104	5,671,003	15,282,873
25,204	45,108	158,504	10,611	31,692	108,080	41,993	3,823,327
4,927,257	7,350,129	14,191,834	2,894,172	3,107,490	4,241,184	5,712,996	19,106,200
16,347,840	7,798,479	31,496,833	8,272,097	4,043,489	9,041,188	11,293,644	26,589,682
565,653	589,747	1,764,860	2,215,644	430,413	746,878	1,677,656	5,099,788
16,913,493	8,388,226	33,261,693	10,487,741	4,473,902	9,788,066	12,971,300	31,689,470
11,986,236	1,038,097	19,069,859	7,593,569	1,366,412	5,546,882	7,258,304	12,583,270
3,188,100	4,723,800	9,153,900	1,878,300	1,975,200	2,666,400	3,699,800	9,879,900
957,206,000	415,811,755	1,870,327,252	466,777,886	210,398,354	524,618,405	679,476,068	1,594,454,723
3,666,118	5,355,123	10,341,003	2,112,599	2,244,182	3,013,706	4,268,321	11,191,593
950,087,482	407,036,932	1,851,065,549	463,536,637	206,336,172	518,866,449	669,089,897	1,571,336,980
3,452,400	3,419,700	8,920,700	1,128,650	1,818,000	2,738,250	6,117,850	11,926,150
58,232,800	86,658,250	167,898,000	34,597,200	36,256,150	49,055,200	67,409,750	182,338,000
61,685,200	90,077,950	176,818,700	35,725,850	38,074,150	51,793,450	73,527,600	194,264,150

1. This item includes expenses for labor and materials temporarily capitalized and charged to activities when the products are consumed.

2. The total expense for Richmond has been adjusted to exclude $2,526,109, which was allocated to the expenses of other Federal Reserve Banks for operation of the Federal Reserve Communications System.

3. Includes unrealized gains and losses.

4. For additional details, see the last three pages of the section "Board of Governors, Income and Expenses."

NOTE. Details may not add to totals because of rounding.

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7 Earnings and Expenses of Federal Reserve Banks, 1914–80

Dollars

Period, or Federal Reserve Bank	Current earnings	Current expenses	Net additions or deductions (−)	Assessments for expenditures of Board of Governors	Dividends paid	Payments to U.S. Treasury			Transferred to surplus (section 13b)	Transferred to surplus (section 7)
						Franchise tax	Under section 13b	Interest on Federal Reserve notes		
All Banks										
1914–15	2,173,252	2,018,282	5,875	302,304	217,463	...	...	...	...	...
1916	5,217,998	2,081,722	−193,001	192,277	1,742,775	...	...	...	...	...
1917	16,128,339	4,921,932	−1,386,545	237,795	6,804,186	1,134,234	...	...	...	1,134,234
1918	67,584,417	10,576,892	−3,908,574	382,641	5,540,684	...	...	...	...	48,334,341
1919	102,380,583	18,744,815	−4,673,446	594,818	5,011,832	2,703,894	...	...	...	70,651,778
1920	181,296,711	27,548,505	−3,743,907	709,525	5,654,018	60,724,742	...	...	...	82,916,014
1921	122,865,866	33,722,409	−6,314,796	741,436	6,119,673	59,974,466	...	...	...	15,993,086
1922	50,498,699	28,836,504	−4,441,914	722,545	6,307,035	10,850,605	...	...	...	−659,904
1923	50,708,566	29,061,539	−8,233,107	702,634	6,552,717	3,613,056	...	...	...	2,545,513
1924	38,340,449	27,767,886	−6,191,143	663,240	6,682,496	113,646	...	...	...	−3,077,962
1925	41,800,706	26,818,664	−4,823,477	709,499	6,915,958	59,300	...	...	...	2,473,808
1926	47,599,595	26,628,458	−3,637,668	721,724	7,329,169	818,150	...	...	...	8,464,426
1927	43,024,484	26,739,327	−2,457,792	779,116	7,754,539	249,591	...	...	...	5,044,119
1928	64,052,860	26,207,133	−5,026,029	697,677	8,458,463	2,584,659	...	...	...	21,078,899
1929	70,955,496	28,909,469	−4,861,642	781,644	9,583,911	4,283,231	...	...	...	22,535,597
1930	36,424,044	27,533,141	−93,136	809,585	10,268,598	17,308	...	...	...	−2,297,724
1931	29,701,279	26,322,110	311,451	718,554	10,029,760	...	...	...	...	−7,057,694
1932	50,018,817	25,562,571	−1,413,192	728,810	9,282,244	2,011,418	...	...	...	11,020,582
1933	49,487,318	28,422,677	−12,307,074	800,160	8,874,262	...	...	...	...	−916,855
1934	48,902,813	27,869,374	−4,430,008	1,372,022	8,781,661	...	...	...	−60,323	6,510,071
1935	42,751,959	30,171,545	−1,736,758	1,405,898	8,504,974	...	297,667	...	27,695	607,422
1936	37,900,639	28,194,457	485,817	1,679,566	7,829,581	...	227,448	...	102,880	352,524
1937	41,233,135	27,052,234	−1,631,274	1,748,380	7,940,966	...	176,625	...	67,304	2,616,352
1938	36,261,428	27,186,684	2,232,134	1,724,924	8,019,137	...	119,524	...	−419,140	1,862,433
1939	38,500,665	27,025,391	2,389,555	1,621,464	8,110,462	...	24,579	...	−425,653	4,533,977
1940	43,537,805	27,461,466	11,487,697	1,704,011	8,214,971	...	82,152	...	−54,456	17,617,358
1941	41,380,095	31,123,609	720,636	1,839,541	8,429,936	...	141,465	...	−4,333	570,513
1942	52,662,704	36,877,718	−1,568,208	1,746,326	8,669,076	...	197,672	...	49,602	3,554,101
1943	69,305,715	41,129,934	23,768,282	2,415,630	8,911,342	...	244,726	...	135,003	40,237,362
1944	104,391,829	46,879,564	3,221,880	2,296,357	9,500,126	...	326,717	...	201,150	48,409,795
1945	142,209,546	46,376,762	−830,007	2,340,509	10,182,851	...	247,659	...	262,133	81,969,625
1946	150,385,033	54,975,323	−625,991	2,259,784	10,962,160	...	67,054	...	27,708	81,467,013
1947	158,655,566	62,753,308	1,973,001	2,639,667	11,523,047	...	35,605	75,223,818	86,772	8,366,350
1948	304,160,818	69,466,518	−34,317,947	3,243,670	11,919,809	...	...	166,690,356	...	18,522,518
1949	316,536,930	74,235,176	−12,122,274	3,242,500	12,329,373	...	...	193,145,837	...	21,461,770
1950	275,838,994	77,138,071	36,294,117	3,433,700	13,082,992	...	...	196,628,858	...	21,849,490
1951	394,656,072	91,373,589	−2,127,889	4,095,497	13,864,750	...	...	254,873,588	...	28,320,759
1952	456,060,260	100,572,489	1,583,988	4,121,602	14,681,788	...	...	291,934,634	...	46,333,735
1953	513,037,237	109,415,220	−1,058,993	4,099,800	15,558,377	...	...	342,567,985	...	40,336,862
1954	438,486,040	105,558,331	−133,641	4,174,600	16,442,236	...	...	276,289,457	...	35,887,775

1955	412,487,931	105,865,923	−265,456	4,194,100	17,711,937	....	....	251,740,721	....	32,709,794
1956	595,649,092	115,842,696	−23,436	5,339,800	18,904,897	....	....	401,555,581	....	53,982,682
1957	763,347,530	124,306,103	−7,140,914	7,507,900	20,080,527	....	....	542,708,405	....	61,603,682
1958	742,068,150	131,804,455	124,175	5,917,200	21,197,452	....	....	524,058,650	....	59,214,569
1959	886,226,116	138,232,106	98,247,253	6,470,600	22,721,687	....	....	910,649,768	....	−93,600,791
1960	1,103,385,257	147,348,575	13,874,702	6,533,700	23,948,225	....	....	896,816,359	....	42,613,100
1961	941,648,170	155,009,475	3,481,628	6,265,100	25,569,541	....	....	687,393,382	....	70,892,300
1962	1,048,508,335	169,481,234	−55,779	6,654,900	27,412,241	....	....	799,365,981	....	45,538,200
1963	1,151,120,060	179,700,557	614,835	7,572,800	28,912,019	....	....	879,685,219	....	55,864,300
1964	1,343,747,303	188,740,689	725,948	8,655,200	30,781,548	....	....	1,582,118,614	....	−465,822,800
1965	1,559,484,027	195,713,790	1,021,614	8,576,396	32,351,602	....	....	1,296,810,053	....	27,053,800
1966	1,908,499,896	198,379,526	996,230	9,021,600	33,696,336	....	....	1,649,455,164	....	18,943,500
1967	2,190,403,752	209,351,250	2,093,876	10,769,596	35,027,312	....	....	1,907,498,270	....	29,851,200
1968	2,764,445,943	228,152,172	8,519,996	14,198,198	36,959,336	....	....	2,463,628,983	....	30,027,250
1969	3,373,360,559	259,953,236	−557,553	15,020,084	39,236,599	....	....	3,019,160,638	....	39,432,450
1970	3,877,218,444	300,145,586	11,441,829	21,227,800	41,136,551	....	....	3,493,570,636	....	32,579,700
1971	3,723,369,921	344,550,798	94,266,075	32,634,002	43,488,074	....	....	3,356,559,873	....	40,403,250
1972	3,792,334,523	379,371,852	−49,615,790	35,234,499	46,183,719	....	....	3,231,267,663	....	50,661,000
1973	5,016,769,328	450,705,676	−80,653,488	44,411,700	49,139,682	....	....	4,340,680,482	....	51,178,300
1974	6,280,090,965	506,424,874	−78,487,237	41,116,600	52,579,643	....	....	5,549,999,411	....	51,483,200
1975	6,257,936,784	551,488,714	−202,369,615	33,577,201	54,609,555	....	....	5,382,064,098	....	33,827,600
1976	6,623,220,383	606,948,264	7,310,500	41,827,700	57,351,487	....	....	5,870,463,382	....	53,940,050
1977	6,891,317,498	623,859,582	−177,033,463	47,366,100	60,182,278	....	....	5,937,148,425	....	45,727,650
1978	8,455,390,401	652,617,206	−633,123,486	53,321,700	63,280,312	....	....	7,005,779,497	....	47,268,200
1979	10,310,148,406	693,559,531	−151,148,220	50,529,700	67,193,615	....	....	9,278,576,140	....	69,141,200
1980	12,802,319,335	791,157,259	−115,385,855	62,230,800	70,354,516	....	....	11,706,369,955	....	56,820,950
TOTAL, 1914-80	99,591,612,871	10,019,971,928	−1,302,956,629	651,376,408	1,372,600,088	149,138,300	2,188,893	84,762,479,882	−3,657	1,330,904,399
Aggregate for each Federal Reserve Bank, 1914-80										
Boston	4,821,372,804	684,255,253	−50,136,582	27,758,586	65,594,198	7,111,395	280,843	3,942,891,461	135,411	43,209,075
New York	25,528,575,661	2,114,262,707	−332,864,511	173,560,486	387,566,424	68,006,262	369,116	22,109,116,197	−433,413	343,263,371
Philadelphia	5,230,362,529	544,031,459	−55,187,279	33,862,218	80,663,494	5,558,901	722,406	4,449,761,739	290,661	60,284,372
Cleveland	7,904,022,417	732,016,989	−111,560,848	57,475,990	125,462,096	4,842,447	82,930	6,764,167,279	−9,906	108,423,743
Richmond	7,471,337,266	794,747,418	−78,129,914	33,883,276	67,565,028	6,200,189	172,493	6,423,145,457	−71,517	67,565,008
Atlanta	4,921,774,051	798,038,573	−86,103,227	43,483,160	81,348,221	8,950,561	79,264	3,808,421,064	5,491	95,344,490
Chicago	15,793,606,416	1,328,885,491	−209,211,130	96,459,872	192,627,677	25,313,526	151,045	13,748,798,539	11,682	192,147,454
St. Louis	3,906,987,994	560,795,360	−48,593,068	21,736,172	46,099,722	2,755,629	7,464	3,186,181,616	−26,515	40,845,478
Minneapolis	2,158,477,875	394,571,869	−32,223,773	17,077,915	34,378,908	5,202,900	55,615	1,632,950,658	64,874	41,951,363
Kansas City	4,105,087,191	602,130,861	−53,581,621	26,931,509	55,428,200	6,939,100	64,213	3,304,086,961	−8,674	55,933,400
Dallas	4,721,163,319	513,886,290	−74,200,981	35,241,373	70,626,127	560,049	102,083	3,948,686,001	55,337	77,805,078
San Francisco	13,028,845,348	952,349,658	−171,163,696	83,905,851	165,239,993	7,697,341	101,421	11,444,272,910	−17,089	204,131,567
TOTAL	99,591,612,871	10,019,971,928	−1,302,956,629	651,376,408	1,372,600,088	149,138,300	2,188,893	84,762,479,882	−3,657	1,330,904,399[1]

[1] The $1,330,904,399 transferred to surplus was reduced by direct charges of $500,000 for charge-off on Bank premises (1927), $139,299,557 for contributions to capital of the Federal Deposit Insurance Corporation (1934), and $3,657 net upon elimination of sec. 13b surplus (1958); and was increased by $11,131,013 transferred from reserves for contingencies (1945), leaving a balance of $1,202,232,198 on Dec. 31, 1980.

NOTE. Details may not add to totals because of rounding.

8. Bank Premises of Federal Reserve Banks and Branches, December 31, 1980

Dollars

Federal Reserve Bank or branch	Cost				Net book value	Other real estate [3]
	Land	Buildings (including vaults) [1]	Building machinery and equipment	Total [2]		
Boston	21,635,346	78,715,046	5,425,128	105,775,520	99,547,675	....
Annex	27,840	89,202	44,538	161,580	134,907	....
New York	3,436,277	20,313,125	12,415,981	36,165,383	16,475,954	9,134,390
Annex	477,862	1,136,219	745,855	2,359,936	680,556	....
Buffalo	673,076	2,828,712	1,626,091	5,127,879	2,608,640	....
Philadelphia	1,876,601	51,803,403	5,119,481	58,799,485	52,815,268	....
Cleveland	1,074,281	5,946,303	4,097,395	11,117,979	2,803,988	1,224,363
Cincinnati	1,997,249	13,541,025	7,521,727	23,060,001	16,558,460	....
Pittsburgh	1,658,376	4,640,384	3,058,355	9,357,115	4,631,702	....
Richmond	3,912,575	55,384,403	14,314,312	73,611,290	69,409,742	....
Annex	522,733	3,725,466	3,616,991	7,865,190	4,724,151	....
Baltimore	4,618,738	9,598,916	1,203,478	15,421,132	13,176,753	....
Charlotte	347,071	1,069,026	875,432	2,291,529	1,236,926	1,675,944
Atlanta	1,202,255	6,130,454	3,558,581	10,891,290	5,724,884	....
Birmingham	1,788,628	2,073,598	1,019,618	4,881,844	3,105,759	503,252
Jacksonville	164,004	1,706,794	784,732	2,655,530	952,918	944,254
Annex	107,925	76,236	15,842	200,003	158,876	....
Miami	1,667,108	16,520,939	1,016	18,189,063	18,194,907	....
Nashville	592,343	1,474,678	1,175,891	3,242,912	1,522,890	....
New Orleans	3,080,344	2,754,272	1,469,911	7,304,527	5,159,232	283,753
Chicago	4,511,942	15,291,192	11,331,231	31,134,365	13,620,684	....
Annex	50,000	302,248	93,916	446,164	385,311	....
Detroit	797,734	2,974,336	1,965,587	5,737,657	2,462,526	....
St. Louis	700,378	4,255,733	3,316,660	8,272,771	2,784,294	....
Little Rock	1,051,214	2,257,261	1,018,004	4,326,479	2,969,566	....
Louisville	700,075	2,900,582	1,159,753	4,760,410	2,490,004	....
Memphis	1,135,623	4,517,077	2,126,755	7,779,455	5,739,654	....
Minneapolis	1,394,384	27,735,548	7,763,560	36,893,492	27,726,210	....
Helena	65,680	101,000	61,907	228,587	90,315	139,735
Kansas City	1,338,736	11,876,441	4,337,977	17,553,154	10,097,500	434,135
Denver	2,997,746	3,209,227	2,351,642	8,558,615	5,711,432	....
Oklahoma City	646,386	2,428,278	1,702,342	4,777,006	3,657,965	....
Omaha	1,030,226	1,749,968	817,214	3,597,408	2,114,312	457,973
Dallas	3,687,482	5,070,507	3,570,804	12,328,793	7,124,381	....
El Paso	262,477	798,892	393,301	1,454,670	827,546	....
Houston	1,959,770	1,408,574	735,552	4,103,896	3,286,725	....
San Antonio	448,596	1,808,303	570,847	2,827,746	1,780,141	....
San Francisco	12,274,532	22,619,721	2,174,233	37,068,486	32,138,384	....
Annex	247,201	131,114	62,078	440,393	350,400	....
Los Angeles	644,238	4,809,559	2,390,534	7,844,331	4,096,500	....
Portland	207,381	1,798,391	649,432	2,655,204	1,997,387	....
Salt Lake City	480,222	2,001,299	824,151	3,305,672	2,101,049	....
Seattle	274,772	2,085,175	1,193,580	3,553,527	1,824,158	....
TOTAL	87,767,427	401,658,627	118,701,415	608,127,469	455,000,632	14,797,799

[1] Includes expenditures for construction at some offices pending allocation to appropriate accounts.

[2] Excludes charge-offs of $17,698,968 before 1952.

[3] Includes acquisitions for banking-house purposes, and Bank premises formerly occupied and being held pending sale.

NOTE. Details may not add to totals because of rounding.

9. Volume of Operations in Principal Departments of Federal Reserve Banks, 1977–80

Operation	1980	1979	1978	1977
	Millions of pieces[1]			
Loans	(2)	(2)	(2)	(2)
Currency received and counted	9,432	8,839	8,537	8,186
Currency verified and destroyed	3,197	2,969	2,621	2,609
Coin received and counted	17,700	18,756	18,654 r	16,563
Checks handled				
U.S. government checks	705	718	721	740
Postal money orders	117	117	125	139
All other	15,716	15,067	14,107	13,312
Issues, redemptions, and exchanges of U.S. government securities	301	335	281	286
Transfers of funds	43	35	29	25
Food stamps redeemed	2,541	1,730	1,906	1,901
	Amounts (millions of dollars)			
Loans	267,957	220,628	138,928	77,511
Currency received and counted	104,333	93,119	81,175	75,933
Currency verified and destroyed	20,183	22,638	16,443	14,952
Coin received and counted	2,703	2,765	2,495	2,239
Checks handled				
U.S. government checks	598,569	511,044	439,907	416,386
Postal money orders	6,164	6,323	5,534	5,661
All other	8,038,026	8,514,670	7,111,254	5,499,856
Issues, redemptions, and exchanges of U.S. government securities	10,252,027	8,186,706 r	8,036,749	8,835,730
Transfers of funds	78,594,862	64,231,109	50,482,656	43,165,467
Food stamps redeemed	9,268	7,779	7,251	7,422

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[1] Packaged items handled as a single item are counted as one piece.

[2] Number handled (in thousands): 1980, 25; 1979, 38; 1978, 31; 1977,12.

10 Principal Operations of Federal Reserve Banks—Expense, Ratio of Expense for Each Operation to Total Expenses, and Average Number of Employees, 1977–80

Expenses in thousands of dollars; number of employees in thousands; ratios in percent

Operation and item	1980	1979	1978	1977
Check clearing operations [1]				
Expense	322,912	279,094	259,983	246,981
Ratio to total expenses	37.3	36.6	36.4	36.2
Average number of employees	6.5	6.3	6.3	6.5
Currency function				
Expense	193,123	180,974	187,864	182,875
Ratio to total expenses	22.3	23.7	26.3	26.8
Average number of employees	1.8	1.9	2.0	2.2
Fiscal agency operations				
Expense	92,348	83,521	76,837	73,002
Ratio to total expenses	10.7	11.0	10.7	10.7
Average number of employees	1.9	1.9	1.9	2.0
Bank supervision				
Expense	85,913	67,752	58,303	52,702
Ratio to total expenses	9.9	8.9	8.2	7.7
Average number of employees	1.6	1.4	1.3	1.3
Other operations [2]				
Expense	171,674	150,878	131,713	126,318
Ratio to total expenses	19.8	19.8	18.4	18.6
Average number of employees	1.9	2.2	2.2	2.2
General administration and support [3]				
Average number of employees	9.9	9.4	9.8	10.1
TOTAL EXPENSES	865,970	762,219	714,700	681,878
Less reimbursements	74,812	68,786	62,084	58,018
Net expenses	791,157	693,433	652,616	623,860

1. Includes automated clearinghouse and noncash collections.
2. Includes mainly economic research and statistics, foreign operations, and lending and credit.
3. General administration and support costs are allocated to each operation.

11 Number and Salaries of Officers and Employees of Federal Reserve Banks, December 31, 1980

Federal Reserve Bank (including branches)	President	Other officers		Employees			Total	
	Annual salary (dollars)	Number	Annual salaries (dollars)	Number		Annual salaries (dollars)	Number	Annual salaries (dollars)
				Full-time	Part-time			
Boston	96,660	48	1,950,600	1,359	200	23,647,868	1,608	25,695,068
New York	125,000	132	6,395,700	4,185	94	76,756,025	4,412	83,276,725
Philadelphia	78,500	39	1,552,400	1,061	104	17,101,600	1,205	18,732,500
Cleveland	87,000	36	1,396,500	1,439	70	21,095,555	1,546	22,579,055
Richmond	78,000	65	2,528,350	1,952	107	28,515,984	2,125	31,122,334
Atlanta	95,000	68	2,606,925	2,292	30	30,788,141	2,391	33,490,066
Chicago	102,000	72	2,864,500	2,941	185	43,990,195	3,199	46,956,695
St. Louis	81,000	43	1,743,030	1,274	93	18,240,478	1,411	20,064,508
Minneapolis	80,000	38	1,497,900	973	3	14,179,425	1,015	15,757,325
Kansas City	68,000	52	1,926,500	1,566	80	22,415,059	1,699	24,409,559
Dallas	73,600	35	1,340,100	1,343	26	18,386,321	1,405	19,800,021
San Francisco	105,000	76	3,004,975	2,032	83	33,151,806	2,192	36,261,781
TOTAL	1,069,700	704	28,807,480	22,417	1,075	348,268,457	24.208	378,145,637

12. Federal Reserve Bank Interest Rates, December 31, 1980

Percent per annum

Federal Reserve Bank	Loans to depository institutions			Loans to all others under last paragraph of sec. 13 [3]
	Short-term adjustment credit [1]	Extended credit		
		Seasonal credit	Special credit [2]	
Boston	13	13	14	16
New York	▲	▲	▲	▲
Philadelphia				
Cleveland				
Richmond				
Atlanta				
Chicago				
St. Louis				
Minneapolis				
Kansas City				
Dallas	▼	▼	▼	▼
San Francisco	13	13	14	16

1. Rate applied to discounts of eligible paper and advances secured to the satisfaction of the Federal Reserve Bank. A 3 percent surcharge was in effect at year-end for short-term adjustment credit borrowings by institutions with deposits of $500 million or more who had borrowed in successive weeks or in more than four weeks in a calendar quarter.

2. This rate is applicable to advances when exceptional circumstances or practices involve only a particular depository institution as described in section 201.3(b)(2) of Regulation A.

3. This rate applies to advances to individuals, partnerships, or corporations that are secured by direct obligations of, or obligations fully guaranteed as to principal and interest by, the U.S. government or any of its agencies.

13. Member Bank Reserve Requirements

Percent of deposits

Effective date [1]	Through July 13, 1966			
	Net demand deposits [2]			Time deposits (all classes of banks)
	Central reserve city banks	Reserve city banks	Country banks	
1917—June 21	13	10	7	3
1936—Aug. 16	19½	15	10½	4½
1937—Mar. 1	22¾	17½	12¼	5¼
May 1	26	20	14	6
1938—Apr. 16	22¾	17½	12	5
1941—Nov. 1	26	20	14	6
1942—Aug. 20	24	......	......	......
Sept. 14	22	......	......	......
Oct. 3	20	......	......	......
1948—Feb. 27	22	......	......	......
June 11	24	......	......	......
Sept. 24, 16	26	22	16	7½
1949—May 5, 1	24	21	15	7
June 30, July 1	......	20	14	6
Aug. 1	......	......	13	......
11, 16	23½	19½	12	5
18	23	19	......	......
25	22½	18½	......	......
Sept. 1	22	18	......	......
1951—Jan. 11, 16	23	19	13	6
25, Feb. 1	24	20	14	......
1953—July 9, 1	22	19	13	......
1954—June 24, 16	21	......	......	5
July 29, Aug. 1	20	18	12	......
1958—Feb. 27, Mar. 1	19½	17½	11½	......
Mar. 20, Apr. 1	19	17	11	......
Apr. 17	18½	......	......	......
24	18	16½	......	......
1960—Sept. 1	17½	......	......	......
Nov. 24	......	......	12	......
Dec. 1	16½	......	......	......
1962—July 28	(3)	......	......	......
Oct. 25, Nov. 1	......	......	......	4

For notes see end of table.

13. Member Bank Reserve Requirements—Continued

Percent of deposits

July 14, 1966, through Nov. 8, 1972 (deposit intervals in millions of dollars)

Effective date	Net demand deposits [2]				Time deposits [4] (all classes of banks)		
	Reserve city banks		Country banks		Savings	Other time	
	0-5	Over 5	0-5	Over 5		0-5	Over 5
1966—July 14, 21	16½ [5]		12 [5]		4 [5]	4 [5]	5
Sept. 8, 15	......	......	......	......	......	......	6
1967—Mar. 2	......	......	......	......	3½	3½	......
16	......	......	......	......	3	3	......
1968—Jan. 11, 18	16½	17	12	12½	......	......	......
1969—Apr. 17	17	17½	12½	13	......	......	......
1970—Oct. 1	......	......	......	......	......	......	5

Nov. 9, 1972, through Nov. 12, 1980 (deposit intervals in millions of dollars)

Effective date	Net demand deposits [2,6]					Time and savings deposits [4]						
						Savings	Time					
							0-5, by maturity			Over 5, by maturity		
	0-2	2-10	10-100	100-400	Over 400		30-179 days	180 days to 4 yrs.	4 yrs. or more	30-179 days	180 days to 4 yrs.	4 yrs. or more
1972—Nov. 9	8	10	12	16½ [8]	17½	3 [5]	3 [5]			5 [5]		
16	.....	.....	.....	13	.....	.....	.....	.....	.....	.....	.....	.....
1973—July 19	.....	10½	12½	13½	18	.....	.....	.....	.....	.....	.....	.....
1974—Dec. 12	.....	.....	.....	.....	17½	.....	.....	.....	.....	6		3
1975—Feb. 13	7½	10	12	13	16½	.....	.....	.....	.....	.....	.....	.....
Oct. 30	.....	.....	.....	.....	.....	.....		3	1 [9]	.....	3	1 [9]
1976—Jan. 8	.....	.....	.....	.....	.....	.....	3	2½ [9]	.....	.....	2½ [9]	.....
Dec. 30	7	9½	11¾	12¾	16¼	.....	.....	.....	.....	.....	.....	.....

Beginning Nov. 13, 1980

Type of deposit, and deposit interval	Depository institution requirements after implementation of the Monetry Control Act [10]	
	Percent	Effective date
Net transaction accounts [11]		
$0-$25 million	3	11/13/80
Over $25 million	12	11/13/80
Nonpersonal time deposits		
By original maturity		
Less than 4 years	3	11/13/80
4 years or more	0	11/13/80
Eurocurrency liabilities		
All types	3	11/13/80

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1. Reserves required during the period from inception of the Federal Reserve System until June 20, 1917, were not strictly comparable with later requirements; they were based on aggregate amounts of deposits, and reserve balances with the Reserve Banks were increased in stages.

When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

2. Demand deposits subject to reserve requirements, beginning Aug. 23, 1935, were total demand deposits minus cash items in process of collection and demand balances due from domestic banks (also minus war loan and Series E bond accounts during the period Apr. 13, 1943–June 30, 1947).

All required reserves were held on deposit with Federal Reserve Banks from June 21, 1917, until late 1959. Since then, member banks were allowed to count vault cash as reserves, as follows: country banks—in excess of 4 and 2½ percent of net demand deposits effective Dec. 1, 1959, and Aug. 25, 1960, respectively; central reserve city and reserve city banks—in excess of 2 and 1 percent effective Dec. 3, 1959, and Sept. 1, 1960, respectively. All institutions were allowed to count all vault cash as reserves effective Nov. 24, 1960.

In graduated requirement schedules, each deposit interval applies to that part of the deposits of each bank.

Beginning Oct. 16, 1969, Regulation M required reserves against (a) net balances due from domestic offices to their foreign branches and (b) foreign branch loans to U.S. residents; Regulation D imposed a similar requirement against (c) borrowings from foreign banks by domestic offices of a member bank. Limited reserve-free base amounts were originally permitted under Regulation M but were eliminated for (b) effective June 21, 1973, and were lowered in steps for (a) and (c) until eliminated effective Mar. 14, 1974. Beginning June 21, 1973, loans aggregating $100,000 or less to any U.S. resident were excluded from computations, as were total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage, which was originally 10 percent, was increased to 20 percent on Jan. 7, 1971; reduced to 8 percent on June 21, 1973, to 4 percent on May 22, 1975, and to zero on Aug. 24, 1978. Effective Dec. 1, 1977, the reserve required against deposits that foreign branches of U.S. banks use for lending to U.S. residents was reduced to 1 percent, and on Aug. 24, 1978, it was reduced to zero. For details see Regulations D and M as described in "Record of Policy Actions of the Board of Governors," in previous ANNUAL REPORTS.

3. Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

4. Time deposits such as Christmas and vacation club accounts became subject to the same requirements as savings deposits, effective Jan. 5, 1967. Negotiable order of withdrawal (NOW) accounts were defined in the Board's Regulation Q as savings deposits beginning Jan. 1, 1974. Effective with the reserve computation period beginning Nov. 16, 1978, domestic deposits of Edge corporations were subject to the same reserve requirements as deposits of member banks.

5. This rate had been established in the earlier structure. It remained the same in the new structure established this date.

6. Effective Nov. 9, 1972, a new criterion was adopted to designate reserve cities, and on the same date requirements for reserves against net demand deposits of member banks were restructured to provide that each member bank maintain reserves related to the size of its net demand deposits. The new reserve city designations were as follows: A bank having net demand deposits of more than $400 million was considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constituted designation of that place as a reserve city. Cities in which there were Federal Reserve Banks or branches were also reserve cities. Any bank, wherever located, having net demand deposits of $400 million or less was considered to have the character of business of banks outside of reserve cities and was permitted to maintain reserves at ratios set for banks not in reserve cities.

7. Beginning Nov. 2, 1978, a supplementary reserve requirement of 2 percent was added to the existing requirements for time deposits of $100,000 or more and for certain other liabilities. This supplementary requirement was eliminated with the maintenance period beginning July 24, 1980.

From June 21, 1973, through Dec. 11, 1974, member banks, except as noted below, were subject to a marginal reserve requirement against increases in the aggregate of the following types of obligations: (a) outstanding time deposits of $100,000 or more, (b) outstanding funds obtained by the bank through issuance by a bank's affiliate of obligations subject to the existing reserve requirements on time deposits, and (c) beginning July 12, 1973, funds from sales of finance bills. For the period June 21 through Aug. 29, 1973, (a) included only single-maturity time deposits. The requirement applied to balances above a specified base, but was not applicable to banks having obligations of these types aggregating less than $10 million. Including the basic requirement (5 percent during the entire period), requirements were as follows: 8 percent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 percent from Oct. 4 through Dec. 26, 1973; and 8 percent from Dec. 27, 1973, through Sept. 18, 1974. Beginning Sept. 19, the 8 percent requirement applied only to those obligations in (a), (b), and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve was removed on this type of obligation issued to mature in less than 4 months. For details, see "Record of Policy Actions of the Board of Governors" in 1973 and 1974 ANNUAL REPORTS.

Effective with the reserve maintenance period beginning Oct. 25, 1979, a marginal reserve requirement of 8 percent was added to managed liabilities in excess of a base amount. This marginal requirement was increased to 10 percent beginning Apr. 3, 1980, was decreased to 5 percent beginning June 12, 1980, and was reduced to zero beginning July 24, 1980. Managed liabilities are defined as large time deposits, Eurodollar borrowings, repurchase agreements against U.S. government and federal agency securities, federal funds borrowings from nonmember institutions, and certain other obligations. In general, the base for the marginal reserve requirement was originally the greater of (a) $100 million or (b) the average amount of the managed liabilities held by a member bank, Edge corporation, or family of U.S. branches and agencies of a foreign bank for the two statement weeks ending Sept. 26, 1979. For the computation period beginning Mar. 20, 1980, the base was lowered by (a) 7 percent or (b) the decrease in an institution's U.S. office gross loans to foreigners and gross balances due from foreign offices of other institutions between the base period (Sept. 13-26, 1979) and the week ending Mar. 12, 1980, whichever was greater. For the computation period beginning May 29, 1980, the base was increased by 7½ percent above the base used to calculate the marginal reserve in the statement week of May 14-21, 1980. In addition, beginning Mar. 19, 1980, the base was reduced to the extent that foreign loans and balances declined.

8. The 16½ percent requirement applied only for one week and solely to former reserve city banks. For other banks, the 13 percent requirement was continued in this deposit interval.

9. The average of reserves on savings and other time deposits had to be at least 3 percent, the legal minimum at that time.

10. For existing nonmember banks and thrift institutions, there is a phase-in period ending Sept. 3, 1987. For existing member banks the phase-in period is about three years, depending on whether their new reserve requirements are greater or less than the old requirements. For existing agencies and branches of foreign banks, the phase-in ends Aug. 12, 1982. All new institutions will have a two-year phase-in beginning with the date that they open for business.

11. Transaction accounts include all deposits on which the account holder is permitted to make withdrawals by negotiable or transferable instruments, payment orders of withdrawal, telephone and preauthorized transfers (in excess of three per month), for the purpose of making payments to the third persons or others.

12. In general, nonpersonal time deposits are time deposits, including savings deposits, that are not transaction accounts and in which the beneficial interest is held by a depositor that is not a natural person. Also included are certain transferable time deposits held by natural persons, and certain obligations issued to depository institution offices located outside the United States. For details, see section 204.2 of Regulation D.

34. Maximum Interest Rates Payable on Time and Savings Deposits

Percent per annum

Nov. 1, 1933—July 19, 1966

Type of deposit	Effective date							
	Nov. 1, 1933	Feb. 1, 1935	Jan. 1, 1936	Jan. 1, 1957	Jan. 1 1962	July 17, 1963	Nov. 24, 1964	Dec. 6, 1965
Savings								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Postal savings[1]								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Other time[2]								
12 months or more	3	2½	2½	3	4	4	4½	5½
6-12 months					3½			
90 days to 6 months	3	2½	2	2½	2½			
Less than 90 days (30-89 days)	3	2½	1	1	1	1	4	

July 20, 1966—June 30, 1973

Type of deposit	Effective date			
	July 20, 1966	Sept. 26, 1966	Apr. 19 1968	Jan. 21, 1970
Savings	4	4	4	4½
Other time[2]				
Multiple maturity[3]				
30-89 days	4	4	4	4½
90 days to 1 year	5	5	5	5
1-2 years				5½
2 years or more				5¾
Single-maturity				
Less than $100,000				
30 days to 1 year	5½	5	5	5
1-2 years				5½
2 years or more				5¾
$100,000 or more				
30-59 days	5½	5½	5	(4)
60-89 days			5¼	(4)
90-179 days			6	(4)
180 days to 1 year			6¼	(4)
1 year or more				(4)

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1. Closing date for the Postal Savings System was Mar. 28, 1966.

2. For exceptions with respect to foreign time deposits, see ANNUAL REPORT for 1962, p. 129; 1965, p. 233; 1968, p. 69.

3. Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

4. The limit on rates on single-maturity time deposits of $100,000 or more has been suspended. The maximum rates that became effective Jan. 21, 1970, and the dates when they were suspended are as follows:

30-59 days	6¼ percent	June 24, 1970
60-89 days	6½ percent	
90-179 days	6¾ percent	May 16, 1973
180 days to 1 year	7 percent	
1 year or more	7½ percent	

Rates on multiple-maturity time deposits in denominations of $100,000 or more were suspended July 16, 1973, when the distinction between single- and multiple-maturity deposits was eliminated.

5. For authorized states only, federally insured commercial banks, savings and loan associations, cooperative banks, and mutual savings banks in Massachusetts and New Hampshire were first permitted to offer negotiable order of withdrawal (NOW) accounts on Jan. 1, 1974. Authorization to issue NOW accounts was extended to similar institutions throughout New England on Feb. 27, 1976, and in New York State on Nov. 10, 1978, and in New Jersey on Dec. 28, 1979. Similar institutions in all states were authorized to issue NOW accounts on Dec. 31, 1980.

6. Effective Oct. 30, 1980, the minimum maturity or notice period for time deposits was decreased from 30 days to 14 days for commercial banks.

7. Effective Aug. 1, 1979.

8. Until July 1, 1979, minimum denomination was $1,000 except for deposits representing funds contributed to an individual retirement account (IRA) or a Keogh (H.R. 10) plan established pursuant to the Internal Revenue Code. The $1,000 minimum requirement was removed for such accounts in December 1975 and November 1976 respectively.

9. Between July 1, and Oct. 31, 1973, there was no ceiling for certificates maturing in four years or more with minimum denominations of $1,000; however, the amount of such certificates that an institution could issue was limited to 5 percent of its total time and savings deposits. Sales in excess of that amount, as well as certificates of less than $1,000, were limited to the 6½ percent ceiling on time deposits maturing in 2½ years or more.

Effective Nov. 1, 1973, ceilings were reimposed on certificates maturing in four years or more with minimun denomination of $1,000. There is no limitation on the amount of these certificates that banks can issue.

10. Before Nov. 27, 1974, no distinction was made between the time deposits of governmental units and of other holders insofar as Regulation Q ceilings on

Beginning July 1, 1973

Type of deposit	Effective date								
	July 1, 1973	Nov. 1, 1973	Nov. 23, 1974	Dec. 23, 1974	July 6, 1977	June 1, 1978	July 1, 1979	Mar. 14, 1980	Dec. 31, 1980
Savings	5	5	5	5	5	5	5¼	5¼	5¼
Negotiable order of withdrawal accounts [1]	....	....	5	5	5	5	5	5	5¼
Other time (multiple- and single-maturity) [2,3]									
Less than $100,000									
14-89 days [6]	5	5	5	5	5	5	5¼ [7]	5¼	5¼
90 days to 1 year	5½	5½	5½	5½	5½	5½	5½	5¾	5¾
1-2½ years	6	6	6	6	6	6	6	6	6
2½-4 years	6½	6½	6½	6½	6½	6½	6½	6½	6½
4-6 years [8]	9			7¼	7¼	7¼	7¼	7¼	7¼
6-8 years [8]	([9])	7¼	7¼	7½	7½	7¼	7¾	7½	7½
8 years or more						7¾	....	7¾	7¾
Governmental units	([10])	([10])	7½	7¾	7¾	8	8	8	8
Individual retirement accounts and Keogh (H.R. 10) plans [11]	....	....	....	....	7¾	8	8	8	8
Money market certificates [12]	....	....	....	....	....	([13])	([13])	....	....
Small saver certificates [14]	....	....	....	....	....	....	....	([15])	([15])
Variable ceiling—4 years or more	....	....	....	....	....	....	([16])	....	....
$100,000 or more	([4])	([4])	([4])	([4])	([4])	([4])	([4])	....	....

rates payable were concerned. Effective Nov. 27, 1974, governmental units were permitted to hold savings deposits and could receive interest rates on time deposits with denominations of less than $100,000, regardless of maturity, as high as the maximum rate permitted on such deposits at any federally insured depository institution. Effective June 1, 1978, the maximum rate on such governmental-unit time deposits was set as high as the maximum permitted on such deposits maturing in more than 6 months (26 weeks) at any federally insured commercial bank, mutual savings bank, or savings and loan association.

11. Three-year minimum maturity.

12. Nonnegotiable time deposits of $10,000 or more with maturities of 26 weeks.

13. Effective June 1, 1978, commercial banks, mutual savings banks, and savings and loan associations were authorized to offer money market certificates at a rate of interest tied to the discount yield or the most recently insured six-month U.S. Treasury bills. The most recent rates and effective dates are published monthly in the *Federal Reserve Bulletin*, p. A9.

14. Nonnegotiable time deposits with maturities of 2½ years or more.

15. Effective Jan. 1, 1980, federally insured commercial banks, mutual savings banks, and savings and loan associations were authorized to offer small saver certificates at a maximum rate of interest tied to the average 2½ year yield for U.S. Treasury securities as determined monthly by the U.S. Treasury. Effective Feb. 27, 1980, an interest rate limit of 12 percent (for thrift institutions) and 11¾ percent (for commercial banks) was placed on these instruments. Effective June 2, 1980, the Depository Institutions Deregulation Committee established a minimum ceiling rate of 9¼ percent for commercial banks and 9½ percent for thrift institutions. The most recent rates and effective dates are published monthly in the *Federal Reserve Bulletin*, p. A9.

16. Effective July 1, 1979, member banks were authorized to offer variable-ceiling accounts with no required minimum denomination and with maturities of four years or more. The maximum rate for member banks was 1¼ percentage points below the average yield on four-year U.S. Treasury securities. Authorization to issue such instruments was terminated on Jan. 1, 1980.

NOTE. Before Mar. 31, 1980, the maximum rates that could be paid by federally insured commercial banks, mutual savings banks, and savings and loan associations were established by the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board under the provisions of 12 CFR 217, 329, and 526, respectively. Title II of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221) transferred the authority of the agencies to establish maximum rates of interest payable on deposits to the Depository Institutions Deregulation Committee. The maximum rates on time deposits in denominations of $100,000 or more with maturities of 30-89 days were suspended in June 1970; such deposits maturing in 90 days or more were suspended in May 1973. For information regarding previous interest rate ceilings on all types of accounts, see earlier issues of the *Federal Reserve Bulletin*, the *Federal Home Loan Bank Board Journal*, and the *Annual Report of the Federal Deposit Insurance Corporation*.

12. Margin Requirements

Percent of market value

Effective date	For credit extended under Regulation T (brokers and dealers), U (banks), G (others than brokers, dealers, or banks), and X (borrowers)			
	Margin stocks	Convertible bonds	Short sales, T only	Writing options, T only[2]
1934—Oct. 1	25—45	....	(3)	....
1936—Feb. 1	25—55	....	(3)	....
Apr. 1	55	....	(3)	....
1937—Nov. 1	40	....	50	....
1945—Feb. 5	50	....	50	....
July 5	75	....	75	....
1946—Jan. 21	100	....	100	....
1947—Feb. 1	75	....	75	....
1949—Mar. 3	50	....	50	....
1951—Jan. 17	75	....	75	....
1953—Feb. 20	50	....	50	....
1955—Jan. 4	60	....	60	....
Apr. 23	70	....	70	....
1958—Jan. 16	50	....	50	....
Aug. 5	70	....	70	....
Oct. 16	90	....	90	....
1960—July 28	70	....	70	....
1962—July 10	50	....	50	....
1963—Nov. 6	70	....	70	....
1968—Mar. 11	70	50	70	....
June 8	80	60	80	....
1970—May 6	65	50	65	....
1971—Dec. 6	55	50	55	....
1972—Nov. 24	65	50	65	....
1974—Jan. 3	50	50	50	....
1977—Jan. 1	50	50	50	30

1. Regulations T, U, G, and X, adopted by the Board of Governors pursuant to the Securities Exchange Act of 1934, limit the amount of credit to purchase and carry "margin securities" and "margin stock" (as defined in the regulations) when such credit is collateralized by securities. Margin requirements are the difference between the market value (100 percent) and the maximum loan value of collateral as prescribed by the Board. Regulation T was adopted effective Oct. 15, 1934; Regulation U, effective May 1, 1936; Regulation G, effective Mar. 11, 1968; and Regulation X, effective Nov. 1, 1971.

2. The margin is expressed as a percent of the current market value of the stock underlying the option.

3. The requirement was the margin "customarily required" by the brokers and dealers.

10. Principal Assets and Liabilities, and Number of Insured Commercial Banks, by Class of Bank, December 31, 1979 and 1978

Asset and liability items shown in millions of dollars

Item	Insured commercial banks				Insured nonmember banks
	Total	Member banks			
		Total	National	State	
	December 31, 1979				
Loans and investments, total	1,126,776	816,872	633,358	183,514	309,903
Loans					
Gross	851,362	631,520	490,267	141,253	219,842
Net	822,085	610,824	473,717	137,107	211,261
Investments	275,414	185,353	143,091	42,262	90,061
U.S. Treasury securities	87,695	58,063	44,125	13,938	29,632
Other [2]	187,719	127,290	98,966	28,324	60,429
Cash assets, total	190,283	159,290	106,748	52,542	30,994
Deposits, total	1,085,739	781,939	594,962	186,977	303,800
Interbank	67,058	64,331	33,640	30,691	2,727
Other demand	371,032	273,072	207,086	65,986	97,959
Other time	647,649	444,535	354,236	90,299	203,114
Total equity capital	96,962	70,815	54,290	16,525	26,146
Number of banks	14,351	5,424	4,447	977	8,927
	December 31, 1978				
Loans and investments, total	1,012,788	737,762	572,022	165,740	275,027
Loans					
Gross	751,737	560,305	435,316	124,989	191,432
Net	726,496	542,493	421,026	121,467	184,003
Investments	261,052	177,456	136,705	40,751	83,595
U.S. Treasury securities	89,136	60,114	45,282	14,832	29,020
Other [2]	171,916	117,342	91,423	25,919	54,574
Cash, assets, total	176,937	149,992	102,612	47,380	26,945
Deposits, total	1,009,089	739,175	560,967	178,208	269,914
Interbank	62,991	60,461	31,685	28,776	2,529
Other demand	346,162	255,285	195,344	59,941	90,877
Other time	599,936	423,427	333,937	89,490	176,508
Total equity capital	87,216	64,447	49,196	15,251	22,769
Number of banks	14,378	5,563	4,563	1,000	8,815

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[1] All insured commercial banks in the United States.

[2] Includes trading accounts for banks with assets of less than $100 million.

Note. Details may not add to totals because of rounding.

Member Bank Reserves, Federal Reserve Bank Credit, and Related Items—Year-End 1918-80, and Month-End 1980

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock [4]	Special drawing rights certificate accounts	Treasury currency outstanding [5]
	U.S. government securities			Loans	Float [1]	All other [2]	Other Federal Reserve assets [3]	Total			
	Total	Bought out right	Held under repurchase agreement								
1918	239	239	0	1,766	199	294	0	2,498	2,873	0	1,795
1919	300	300	0	2,215	201	575	0	3,292	2,707	0	1,707
1920	287	287	0	2,687	119	262	0	3,355	2,639	0	1,709
1921	234	234	0	1,144	40	146	0	1,563	3,373	0	1,842
1922	436	436	0	618	78	273	0	1,405	3,642	0	1,958
1923	134	80	54	723	27	355	0	1,238	3,957	0	2,009
1924	540	536	4	320	52	390	0	1,302	4,212	0	2,025
1925	375	367	8	643	63	378	0	1,459	4,112	0	1,977
1926	315	312	3	637	45	384	0	1,381	4,205	0	1,991
1927	617	560	57	582	63	393	0	1,655	4,092	0	2,006
1928	228	197	31	1,056	24	500	0	1,809	3,854	0	2,012
1929	511	488	23	632	34	405	0	1,583	3,997	0	2,022
1930	729	686	43	251	21	372	0	1,373	4,306	0	2,027
1931	817	775	42	638	20	378	0	1,853	4,173	0	2,035
1932	1,855	1,851	4	235	14	41	0	2,145	4,226	0	2,204
1933	2,437	2,435	2	98	15	137	0	2,688	4,036	0	2,303
1934	2,430	2,430	0	7	5	21	0	2,463	8,238	0	2,511
1935	2,431	2,430	1	5	12	38	0	2,486	10,125	0	2,476
1936	2,430	2,430	0	3	39	28	0	2,500	11,258	0	2,532
1937	2,564	2,564	0	10	19	19	0	2,612	12,760	0	2,637
1938	2,564	2,564	0	4	17	16	0	2,601	14,512	0	2,798
1939	2,484	2,484	0	7	91	11	0	2,593	17,644	0	2,963
1940	2,184	2,184	0	3	80	8	0	2,274	21,995	0	3,087
1941	2,254	2,254	0	3	94	10	0	2,361	22,737	0	3,247
1942	6,189	6,189	0	6	471	14	0	6,679	22,726	0	3,648
1943	11,543	11,543	0	5	681	10	0	12,239	21,938	0	4,094
1944	18,846	18,846	0	80	815	4	0	19,745	20,619	0	4,131
1945	24,262	24,262	0	249	578	2	0	15,091	20,065	0	4,339
1946	23,350	23,350	0	163	580	1	0	24,093	20,529	0	4,562
1947	22,559	22,559	0	85	535	1	0	23,181	22,754	0	4,562
1948	23,333	23,333	0	223	541	1	0	24,097	24,244	0	4,589
1949	18,885	18,885	0	78	534	2	0	19,499	24,427	0	4,598
1950	20,778	20,725	53	67	1,368	3	0	22,216	22,706	0	4,636
1951	23,801	23,605	196	19	1,184	5	0	25,009	22,695	0	4,709
1952	24,697	24,034	663	156	967	4	0	25,825	23,187	0	4,812
1953	25,916	25,318	598	28	935	2	0	26,880	22,030	0	4,894
1954	24,932	24,888	44	143	808	1	0	25,885	21,713	0	4,985
1955	24,785	24,391	394	108	1,585	29	0	26,507	21,690	0	5,008
1956	24,915	24,610	305	50	1,665	70	0	26,699	21,949	0	5,066
1957	24,238	23,719	519	55	1,424	66	0	25,784	22,781	0	5,146
1958	26,347	26,252	95	64	1,296	49	0	27,755	20,534	0	5,234
1959	26,648	26,607	41	458	1,590	75	0	28,771	19,456	0	5,311
1960	27,384	26,984	400	33	1,847	74	0	29,338	17,767	0	5,398
1961	28,881	30,478	159	130	2,300	51	0	31,362	16,889	0	5,585
1962	30,820	28,722	342	38	2,903	110	0	33,871	15,978	0	5,567
1963	33,593	33,582	11	63	2,600	162	0	36,418	15,513	0	5,578
1964	37,044	36,506	538	186	2,606	94	0	39,930	15,388	0	5,405

17 — Continued

Factors absorbing reserve funds										
Currency in circulation	Treasury cash holdings [4]	Deposits, other than member bank reserves, with Federal Reserve Banks			Other Federal Reserve accounts [3]	Other Federal Reserve liabilities and capital [3]	Member bank reserves			
		Treasury	Foreign	Other			With Federal Reserve Banks	Currency and coin [7]	Required [6]	Excess [6]
4,951	288	51	96	25	118	0	1,636	0	1,585	51
5,091	385	31	73	28	208	0	1,890	0	1,822	68
5,325	218	57	5	18	298	0	1,781	0	0	0
4,403	214	96	12	15	285	0	1,753	0	1,654	99
4,530	225	11	3	26	276	0	1,934	0	0	0
4,757	213	38	4	19	275	0	1,898	0	1,884	14
4,760	211	51	19	20	258	0	2,220	0	2,161	59
4,817	203	16	8	21	272	0	2,212	0	2,256	- 44
4,808	201	17	46	19	293	0	2,194	0	2,250	- 56
4,716	208	18	5	21	301	0	2,487	0	2,424	63
4,686	202	23	6	21	348	0	2,389	0	2,430	- 41
4,578	216	29	6	24	393	0	2,355	0	2,428	- 73
4,603	211	19	6	22	375	0	2,471	0	2,375	96
5,360	222	54	79	31	354	0	1,961	0	1,994	- 33
5,388	272	8	19	24	355	0	2,509	0	1,933	576
5,519	284	3	4	128	360	0	2,729	0	1,870	859
5,536	3,029	121	20	169	241	0	4,096	0	2,282	1,814
5,882	2,566	544	29	226	253	0	5,587	0	2,743	2,844
6,543	2,376	244	99	160	261	0	6,606	0	4,622	1,984
6,550	3,619	142	172	235	263	0	7,027	0	5,815	1,212
6,856	2,706	923	199	242	260	0	8,724	0	5,519	3,205
7,598	2,409	634	397	256	251	0	11,653		6,444	5,209
8,732	2,213	368	1,133	599	284	0	14,026	0	7,411	6,615
11,160	2,215	867	774	586	291	0	12,450	0	9,365	3,085
15,410	2,193	799	793	485	256	0	13,117	0	11,129	1,988
20,449	2,303	579	1,360	356	339	0	12,886	0	11,650	1,236
25,307	2,375	440	1,204	394	402	0	14,373	0	12,748	1,625
28,515	2,287	977	862	446	495	0	15,915	0	14,457	1,458
28,952	2,272	393	508	314	607	0	16,139	0	15,577	562
28,868	1,336	870	392	569	563	0	17,899	0	16,400	1,499
28,224	1,325	1,123	642	547	590	0	20,479	0	19,277	1,202
27,600	1,312	821	767	750	706	0	16,568	0	15,550	1,018
27,741	1,293	668	895	565	714	0	17,681	0	16,509	1,172
29,206	1,270	247	526	363	746	0	20,056	0	19,667	389
30,433	1,270	389	550	455	777	0	19,950	0	20,520	- 570
30,781	761	346	423	493	839	0	20,160	0	19,397	763
30,509	796	563	490	441	907	0	18,876	0	18,618	258
31,158	767	394	402	554	925	0	19,005	0	18,903	102
31,790	775	441	322	426	901	0	19,059	0	19,089	- 30
31,834	761	481	356	246	998	0	19,034	0	19,091	- 57
32,193	683	358	272	391	1,122	0	18,504	0	18,574	- 70
32,591	391	504	345	694	841	0	18,174	310	18,619	- 135
32,869	377	485	217	533	941	0	17,081	2,544	18,988	637
33,918	422	465	279	320	1,044	0	17,387	2,823	20,114	96
35,338	380	597	247	393	1,007	0	17,454	3,262	20,071	645
37,692	361	880	171	291	1,065	0	17,049	4,099	20,677	471
39,619	612	820	229	321	1,036	0	18,086	4,151	21,663	574

For notes see last two pages of table.

17. Member Bank Reserves, Federal Reserve Bank Credit, and Related Items—Year-End 1918–80, and Month-End 1980—Continued

Millions of dollars

Period	Factors supplying reserve funds										
	Federal Reserve Bank credit outstanding								Gold stock[4]	Special drawing rights certificate accounts	Treasury currency outstanding[5]
	U.S. government securities[9]			Loans	Float[1]	All other[2]	Other Federal Reserve assets[3]	Total			
	Total	Bought outright[10]	Held under repurchase agreement								
1965	40,768	40,478	290	137	2,248	187	0	43,340	13,733	0	5,575
1966	44,316	43,655	661	173	2,495	193	0	47,177	13,159	0	6,317
1967	49,150	48,980	170	141	2,576	164	0	52,031	11,982	0	6,784
1968	52,937	52,937	0	186	3,443	58	0	56,624	10,367	0	6,795
1969	57,154	57,154[10]	0	183	3,440	64	2,743	63,584	10,367	0	6,852
1970	62,142	62,142	0	335	4,261	57	1,123	67,918	10,732	400	7,149
1971	70,804	69,481	1,323	39	4,343	261	1,068	76,515	10,132	400	7,710
1972	71,230	71,119	111	1,981	3,974	106	1,260	78,551	10,410	400	8,313
1973	80,495	80,395	100	1,258	3,099	68	1,152	86,072	11,567	400	8,716
1974	85,714	84,760	954	299	2,001	999	3,195	92,208	11,652	400	9,253
1975	94,124	92,789	1,335	211	3,688	1,126	3,312	102,461	11,599	500	10,218
1976	104,093	100,062	4,031	25	2,601	991	3,182	110,892	11,598	1,200	10,810
1977	111,274	108,922	2,352	265	3,810	954	2,442	118,745	11,718	1,250	11,331
1978	118,591	117,374	1,217	1,174	6,432	587	4,543	131,327	11,671	1,300	11,831
1979	126,167	124,507	1,660	1,454	6,767	704	5,613	140,705	11,172	1,800	13,083
1980^{p}	130,592	128,038	2,554	1,809	4,467	776	8,739	146,383	11,160	2,518	13,427
1980											
Jan.	124,527	124,527	0	828	4,610	0	5,237	135,202	11,172	2,968	13,169
Feb.	123,418	122,766	652	3,364	3,154	205	4,414	134,555	11,172	2,968	13,259
Mar.	124,948	123,945	1,003	2,502	3,682	171	5,010	136,313	11,172	2,968	13,352
Apr.	127,702	127,702	0	4,770	3,072	0	5,563	141,107	11,172	2,968	13,410
May	133,507	130,248	3,259	602	2,475	366	5,155	142,105	11,172	2,968	13,530
June	133,427	132,933	494	215	4,167	373	5,559	143,741	11,172	3,018	13,523
July	128,967	127,370	1,597	562	2,808	310	5,669	138,316	11,172	3,118	13,570
Aug.	129,203	127,887	1,316	1,515	3,468	277	5,328	139,791	11,172	3,268	13,614
Sept.	129,764	128,200	1,564	982	3,192	499	5,574	140,011	11,168	3,268	13,663
Oct.	130,702	128,613	2,089	1,567	2,194	566	6,160	141,189	11,163	3,268	13,716
Nov.	129,977	127,697	2,280	2,284	6,792	523	6,539	146,115	11,162	3,368	13,779
Dec.^{p}	130,592	128,038	2,554	1,809	4,467	776	8,739	146,383	11,160	2,518	13,427

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1. Beginning with 1960, figures reflect a minor change in concept; see *Federal Reserve Bulletin*, vol. 47 (Feb. 1961), p. 164.

2. Data consist principally of acceptances and, until Aug. 21, 1959, industrial loans, authority for which expired on that date.

3. Before Apr. 16, 1969, this category includes the total of Federal Reserve Bank capital paid in, surplus, other capital accounts, and other liabilities and accrued dividends less the sum of bank premises and other assets, and was reported as "Other Federal Reserve accounts"; thereafter, "Other Federal Reserve assets" and "Other Federal Reserve liabilities and capital" are shown separately.

4. Before Jan. 30, 1934, data include gold held in Federal Reserve Banks and in circulation.

5. These figures include currency and coin (other than gold) issued directly by the Treasury. The largest components are fractional and dollar coins. For details see the regular table, "Currency and Coin in Circulation," in the *Treasury Bulletin*.

6. This category consists of the coin and paper currency held by the Treasury, as well as any gold in excess of the gold certificates issued to the Reserve Bank.

7. Between Dec. 1, 1959, and Nov. 23, 1960, part of the amount was allowed as reserves; thereafter all was allowed.

8. These figures are estimated through 1958. Before 1929, they were available only on call dates (in 1920 and 1922, the call dates were Dec. 29). Beginning Sept. 12, 1968, the amount is based on close-of-business figures for the reserve period 2 weeks previous to the report date.

9. Beginning Dec. 1, 1966, these securities include federal agency obligations held under repurchase agreements and beginning Sept. 29, 1971, federal agency issues bought outright.

10. *Includes*, beginning 1969, securities loaned—fully guaranteed by U.S. government securities pledged with Federal Reserve Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

Continued

Factors absorbing reserve funds										
Currency in circulation	Treasury cash holdings	Deposits, other than member bank reserves, with Federal Reserve Banks			Other Federal Reserve accounts	Other Federal Reserve liabilities and capital	Member bank reserves[11]			
		Treasury	Foreign	Other			With Federal Reserve Banks	Currency and coin	Required	Excess[8, 12]
42,056	760	668	150	355	211	0	18,447	4,163	22,848	−238
44,663	1,176	416	174	588	−147	0	19,779	4,310	24,321	−232
47,226	1,344	1,123	135	653	−773	0	21,092	4,631	25,905	−182
50,961	695	703	216	747	−1,353	0	21,818	4,921	27,439	−700
53,950	596	1,312	134	807	0	1,919	22,085	5,187	28,173	−901
57,093	431	1,156	148	1,233	0	1,986	24,150	5,423	30,033	−460
61,068	460	2,020	294	999	0	2,131	27,788	5,743	32,496	1,035
66,516	345	1,855	325	840	0	2,143	25,647	6,216	32,044	98[12]
72,497	317	2,542	251	1,419[13]	0	2,669	27,060	6,781	35,268	−1,360
79,743	185	3,113	418	1,275[13]	0	2,935	25,843	7,370	37,011	−3,798
86,547	483	7,285	353	1,090	0	2,968	26,052	8,036	35,197	−1,103[14]
93,717	460	10,393	352	1,357	0	3,063	25,158	8,628	35,461	−1,535
103,811	392	7,114	379	1,187	0	3,292	26,870	9,421	37,615	−1,265
114,645	240	4,196	368	1,256	0	4,275	31,152	10,538	42,694	−893
125,600	494	4,075	429	1,412	0	4,957	29,792	11,429	44,217	−2,835
136,829	441	3,062	411	617	0	4,671	27,456	13,654	40,558	675
121,157	472	2,931	440	339	0	5,682	31,492	11,731	43,224	214
121,436	525	2,417	450	350	0	4,668	32,108	10,883	42,467	737
122,943	586	2,334	468	313	0	4,886	32,270	10,751	43,556	1,871
123,963	584	4,561	648	553	0	5,066	33,282	11,285	45,034	−250
125,694	554	4,523	380	1,160	0	5,083	32,382	11,114	43,766	−63
127,097	529	3,199	691	1,332	0	5,003	33,612	11,257	43,778	1,285
128,337	489	3,954	436	500	0	4,540	27,920	11,543	39,759	−113
129,667	467	2,742	336	383	0	4,570	29,680	11,592	40,601	860
129,917	466	4,102	460	363	0	4,659	28,146	12,011	41,884	−1,551
131,075	460	1,864	368	338	0	4,713	30,518	12,028	42,032	673
134,104	449	2,435	368	478	0	5,061	31,528	13,153	39,910	4,899
136,829	441	3,062	411	617	0	4,671	27,456	13,654	40,558	675

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[11] Beginning November 1979, includes reserves of member banks, Edge Act corporations, and U.S. agencies and branches of foreign banks. Beginning Nov. 13, 1980, includes reserves of all depository institutions.

[12] Beginning with the week ending Nov. 15, 1972, figures include $450 million of reserve deficiencies on which Federal Reserve Banks are allowed to waive penalties for a transition period in connection with bank adaptation to Regulation J as amended, effective Nov. 9, 1972. Allowable deficiencies (beginning with first statement week of quarter) included are (in millions): 1973—Q1, $279; Q2, $172; Q3, $112; Q4, $84; and 1974—Q1, $67, and Q2, $58. The transition period ended after the second quarter of 1974.

[13] Beginning July 1973, this item includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with Federal Reserve Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at Federal Reserve Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Eurodollar liabilities.

[14] Beginning with the week ending Nov. 19, 1975, figures are adjusted to include waivers of penalties for reserve deficiencies, in accordance with change in Board policy that became effective Nov. 19, 1975.

NOTE. For a description of figures and discussion of their significance, see "Member Bank Reserves and Related Items," Section 10 of *Banking and Monetary Statistics, 1941-1970* (Board of Governors of the Federal Reserve System, Sept. 1, 1976), pp. 507-23.

18. Changes in Number of Banking Offices in the United States, 1980

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Non-insured	Insured	Non-insured
Banks, Dec. 31, 1979	**15,171**	**14,708**	**5,425**	**4,448**	**977**	**8,926**	**357**	**324**	**139**
Changes during 1980									
New banks	267	266	90	62	28	116	60	1	....
Voluntary liquidations	−3	−3	−1	−1	....	−2	....	....	....
Banks converted into branches	−118	−117	−54	−38	−16	−63	....	....	−1
Other	−18	−18	−6	−6	....	−10	−2	....	....
Interclass changes									
Nonmember to national	....	....	4	4	....	−4	....	....	....
Nonmember to state member	....	....	16	....	16	−16	....	....	....
State member to national	....	....	....	2	−2	....	....	....	....
State member to nonmember	....	....	−11	....	−11	11	....	....	....
National to nonmember	....	....	−41	−41	....	41	....	....	....
National to state member	....	....	....	−5	5	....	....	....	....
Noninsured to insured	....	....	....	....	....	1	−1	....	....
Noninsured to insured mutual	....	....	....	....	....	....	....	1	−1
Insured mutual to federal mutual	−3	....	....	....	....	....	....	−3	....
Net change	**125**	**128**	**−3**	**−23**	**20**	**74**	**57**	**−1**	**−2**
Dec. 31, 1980	**15,296**	**14,836**	**5,422**	**4,425**	**997**	**9,000**	**414**[1]	**323**	**137**

Type of office and change	All banks	Commercial banks (including stock savings banks and nondeposit trust companies)						Mutual savings banks	
		Total	Member			Nonmember			
			Total	National	State	Insured	Noninsured	Insured	Noninsured
Branches and additional offices, Dec. 31, 1979 [2]	**39,277**	**36,403**	**23,543**	**18,674**	**4,869**	**12,809**	**51**	**2,515**	**359**
Changes during 1980									
De novo	2,397	2,099	1,143	946	197	956	....	271	27
Banks converted	116	113	69	52	17	44	....	2	1
Discontinued	−287	−267	−194	−148	−46	−73	....	−19	−1
Sale of branch	....	....	−11	6	−17	11	....	....	....
Interclass changes									
Nonmember to national	....	....	66	66	....	−66	....	....	....
Nonmember to state member	....	....	75	....	75	−75	....	....	....
State member to national	....	....	....	322	−322	....	....	....	....
State member to nonmember	....	....	−53	....	−53	53	....	....	....
National to state member	....	....	....	−57	57	....	....	....	....
National to nonmember	....	....	−262	−262	....	262	....	....	....
Noninsured to insured mutual	....	....	....	....	....	....	....	5	−5
Insured mutual to federal mutual	−30	....	....	....	....	....	....	−30	....
Facilities reclassified as branches	8	8	6	6	....	2	....	....	....
Other	−4	−3	−3	15	−18	....	....	....	−1
Net change	**2,200**	**1,950**	**836**	**946**	**−110**	**1,114**	....	**229**	**21**
Dec. 31, 1980 [2]	**41,477**	**38,353**	**24,379**	**19,620**	**4,759**	**13,923**	**51**	**2,744**	**380**
Banking facilities, Dec. 31, 1979 [3]	**166**	**166**	**143**	**130**	**13**	**23**	....	....	....
Changes during 1980									
Established	1	1	1	1	....	....	....	....	....
Discontinued	−5	−5	−3	−1	−2	−2	....	....	....
Facilities reclassified as branches	−6	−6	−6	−6	....	....	....	....	....
Net change	**−10**	**−10**	**−8**	**−6**	**−2**	**−2**	....	....	....
Dec. 31, 1980 [3]	**156**	**156**	**135**	**124**	**11**	**21**	....	....	....

1. As of Dec. 31, 1980, 14 state member noninsured trust companies are included.

2. Figures exclude banking facilities.

3. Data include facilities provided at military and other government establishments through arrangements made by the Treasury.

19. Number of Par Banking Offices, December 31, 1980

Area	Total		Par			
			Member		Nonmember	
	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices
	Federal Reserve District					
Boston	348	2,228	169	1,104	179	1,124
New York	482	4,945	226	1,044	256	901
Philadelphia	353	2,458	213	1,385	140	1,073
Cleveland	656	3,311	374	2,566	282	745
Richmond	717	5,023	376	3,079	341	1,944
Atlanta	1,823	4,423	563	2,269	1,260	2,154
Chicago	2,790	4,477	903	2,647	1,887	1,830
St. Louis	1,448	2,028	387	900	1,061	1,128
Minneapolis	1,428	783	507	430	921	353
Kansas City	2,331	1,233	818	731	1,513	502
Dallas	1,636	548	737	205	899	343
San Francisco	640	7,312	149	5,203	491	2,109
TOTAL	**14,652**	**38,769**	**5,422**	**24,563**	**9,230**	**14,206**
	State					
Alabama	318	631	123	407	195	214
Alaska	12	113	5	79	7	34
Arizona	24	537	3	355	21	182
Arkansas	260	415	72	205	188	210
California	283	4,280	56	3,214	227	1,066[2]
Colorado	323	111	178	72	145	39
Connecticut	64	603	21	293	43	310
Delaware	18	148	6	6	12	142
District of Columbia	18	151	16	149	2	2
Florida	555	1,188	236	593	319	595
Georgia	435	869	72	484	363	385
Hawaii	9	162	2	10	7	152
Idaho	26	247	11	195	15	52
Illinois	1,286	537	466	288	820	249
Indiana	406	1,130	160	591	246	539
Iowa	656	572	138	197	518	375
Kansas	620	272	170	141	450	131
Kentucky	345	760	87	375	258	385
Louisiana	269	804	59	354	210	450
Maine	41	309	17	152	24	157
Maryland	102	942	36	481	66	461
Massachusetts	143	954	77	497	66	457
Michigan	376	2,158	206	1,588	170	570
Minnesota	761	273	237	143	524	130
Mississippi	177	698	42	290	135	408
Missouri	725	439	146	116	579	323
Montana	163	36	99	26	64	10
Nebraska	457	284	126	212	331	72
Nevada	9	143	4	119	5	24
New Hampshire	74	158	40	100	34	58
New Jersey	169	1,588	105	1,197	64	391
New Mexico	89	244	46	136	43	108
New York	326	3,426	156	3,097	170	329[2]
North Carolina	79	1,741	25	843	54	898
North Dakota	176	128	42	50	134	78
Ohio	385	2,237	256	1,940	129	297
Oklahoma	500	255	204	184	296	71
Oregon	88	586	16	357	72	229
Pennsylvania	363	2,560	221	1,473	142	1,087
Rhode Island	16	232	5	119	11	113

19. Number of Par Banking Offices, December 31, 1980—Continued

Area	Total		Par			
			Member		Nonmember	
	Banks	Branches and offices	Banks	Branches and offices	Banks	Branches and offices
	State—Continued					
South Carolina	85	729	25	384	60	345
South Dakota	152	166	60	122	92	44
Tennessee	351	1,031	78	462	273	569
Texas	1,472	261	684	79	788	182
Utah	76	286	28	226	48	60
Vermont	28	167	13	45	15	122
Virginia	229	1,409	154	1,193	75	216
Washington	109	942	24	643	85	299
West Virginia	235	64	138	36	97	28
Wisconsin	635	525	159	191	476	334
Wyoming	102	3	72	1	30	2
	Other area					
American Samoa [3]	1	1	....	....	1	1
Guam [3]	3	15	....	5	3	10
Puerto Rico [4]	22	236	....	25	22	211
Virgin Islands [4]	6	23	....	23	6	....

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[1] There were no nonpar banking offices as of Dec. 31, 1980.

[2] Includes 1 Los Angeles branch and 17 New York City branches of 3 insured nonmember Puerto Rican banks.

[3] American Samoa and Guam assigned to the San Francisco District for check-clearing and collection purposes. All member banks in Guam are branches of California and New York banks.

[4] Puerto Rico and the Virgin Islands assigned to the New York District for check-clearing and collection purposes. All member branches in Puerto Rico and the Virgin Islands are branches of banks located in California, New York, and Pennsylvania. Certain branches of Canadian banks (1 in Puerto Rico and 5 in the Virgin Islands) are included above as nonmember banks; and nonmember branches in Puerto Rico include 8 other branches of Canadian banks.

NOTE. Comprises all commercial banking offices on which checks are drawn, including 156 banking facilities. Number of banks and branches differs from that in table 18 because this table includes banks in Guam, Puerto Rico, and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

Barclays Bank of New York, New York, ***to acquire certain assets and assume certain liabilities*** **of 31 branches of Bankers Trust Company, New York, New York**

Summary Report by the Attorney General
(No report received.)

Basis for Approval by the Federal Reserve Bank (2-1-80)
Barclays Bank of New York (Applicant), with assets of $589 million, is a subsidiary of Barclays Bank International, Limited, London, England. Applicant proposes to acquire 31 branches of Bankers Trust Company (Bank). Deposits at these branches amount to $371 million. The instant proposal represents part of a plan by Bank to sell the bulk of its retail branches.

In considering the competitive aspects of the case, the relevant market is the New York metropolitan banking market. All of Applicant's 33 offices are in this market, as well as all but 6 of the 31 branches to be acquired. However, because Applicant's offices and the branches to be acquired operate primarily in separate parts of the New York metropolitan market, the proposal would not eliminate a significant amount of competition.

The proposed acquisition would produce positive public benefits. According to the application, Bank has already effectively withdrawn from retail banking in the New York metropolitan market. It has opened no retail banking offices since 1974, and has closed 16 offices since 1977. In 1979, the branches of Bank made no home mortgage loans, and extended less than $9 million in consumer installment loans. Furthermore, in most cases, Bank's current levels of interest paid on savings deposits and charged on consumer loans are not fully competitive with those of other banks in the same market. Finally, according to the application, there is a possibility that if the branches are not sold, Bank may ultimately close some of them. Applicant, on the other hand, has indicated its intention to revitalize these branches by providing a wide range of retail banking services at competitive rates, by making capital investments at the branches, and by extending banking hours where appropriate.

The banking factors are consistent with approval.

The Central Trust Company, Reynoldsburg, Ohio, ***to merge with*** **The Farmers and Citizens Bank, Lancaster, Ohio**

Summary Report by the Attorney General
(No report received.)

Basis for Approval by the Secretary, Board of Governors (6-10-80)
The Central Trust Company (Applicant), with assets of $151 million, proposes to merge The Farmers and Citizens Bank (Bank), with assets of $64 million. Applicant is a subsidiary of The Central Bancorporation, Inc., Cincinnati (Bancorporation), which ranks eighth among Ohio's commercial banking organizations, with 4.1 percent of the deposits.

In considering the competitive aspects of this case, the relevant market is the Columbus banking market, where Bancorporation holds 2.1 percent of area deposits and ranks fifth among 25 commercial banking organizations. If the instant merger is consummated, Bancorporation would hold 3.5 percent of area deposits and would continue to rank fifth in the Columbus market.

The nearest offices of the participating banks are about seven miles apart, with no offices of other banks in the intervening area. The instant proposal would have a slightly adverse effect on competition.

The proposed merger would produce positive public benefits. Following the merger, drive-in facilities would be built at Bank's Carroll and Rushville branches; a more constructive and aggressive lending policy would be implemented at Bank's offices; and certain services, not now available, would be furnished to customers of such offices by subsidiaries of Bancorporation. Convenience and need considerations, including those relating to the Community Reinvestment Act, are sufficient to outweigh the slightly adverse competitive effects that would result from the proposed merger.

The financial condition of the participating banks is considered generally satisfactory.

20.—Continued

Manufacturers Hanover Trust Company, New York, New York, *to acquire certain assets and assume certain liabilities* **of eight branches of Bankers Trust Company, New York, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-8-80)
The proposed transaction would have no substantial competitive impact.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (8-5-80)
Manufacturers Hanover Trust Company (Applicant), with assets aggregating $47 billion, proposes to acquire certain assets and assume certain liabilities of eight branches of Bankers Trust Company (BTC). Deposits at the branches amount to $72 million. Applicant, the second largest commercial bank in the state of New York, is a subsidiary of Manufacturers Hanover Corporation (MHC), which controls 13.6 percent of the deposits held by commercial banking offices situated in the state. The instant proposal represents part of a plan of BTC to sell most of its retail branches. Applicant ranks first among one hundred seven commercial banking organizations in the relevant New York metropolitan banking market, with 15.2 percent of the area deposits, while the branches of BTC hold 0.06 percent of the market deposits. This market is relatively unconcentrated, with the four largest commercial banking organizations controlling 54.1 percent of the deposits. The proposed merger would eliminate some direct competition between the subject banks; however, because of the larger number of competitors in close proximity to each of the offices involved in this proposal, the amount of competition that would be eliminated is not regarded as significant. Overall, competitive and convenience and need considerations, including Community Reinvestment Act factors, are consistent with approval.

The financial condition of MHC and Applicant is considered to be generally satisfactory.

Bank of New York, New York, New York, *to merge with* **Empire National Bank, Middletown, New York**

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (8-12-80)
Bank of New York (Applicant), with assets of $10 billion, proposes to merge Empire National Bank (Bank), with assets of $498 million. Applicant is the ninth largest commercial banking organization in the state of New York, with 3.1 percent of the state's total commercial bank deposits. The proposed merger would not alter Applicant's rank in the state.

Bank operates forty-one offices in three separate market areas: metropolitan New York, Mid-Hudson, and Middletown. The effect of the proposal on existing competition in the New York unconcentrated metropolitan market would be minimal in view of the nature of the market, the relatively small market share that Applicant would hold following consummation of the proposal, and Applicant's commitment to divest four offices in that market. Applicant's rank as the eighth largest among commercial banking organizations would remain unchanged. The effect of the proposal on existing competition in the Mid-Hudson market would also be insignificant and would be mitigated by the divestiture of Applicant's two offices in that market.

The only market in which competition is an issue in this application is the Middletown market, where both Applicant and Bank currently compete. Bank, with market deposits of $164.7 million, ranks first with a 25.3 percent share of the commercial bank deposits. Applicant operates five offices and ranks fourth. Although Bank is the leading competitor, its competitive influence has been declining in recent years because of financial and managerial conditions. Its market share has declined from approximately 32 percent in 1973 to 25.3 percent in 1979. Moreover, Applicant has agreed to divest two of its offices in this market, with deposits of $15.1 million, thereby reducing its rank from fourth to sixth largest. The Middletown market, which was not highly concentrated in the past, has become even less so since the relatively recent entry of six of the nation's fourteen largest banks, including five large New York City banks.

In this case, the Board has also considered the presence of savings and loan associations and mutual savings banks in the market. While continuing to view commercial banking as the relevant line of commerce in determining the competitive effects of a proposal, the Board has stated that it may be appropriate in particular cases and in specific areas to take into consideration direct competition from thrift institutions when evaluating various competitive influences. In view of the absolute size and significant deposit-taking role of thrift institutions in the Middletown market, as well as their increasing powers, the Board believes that their influence further diminishes the adverse competitive effects of the proposed merger. Accordingly, the Board concludes that the competitive effects of the proposal are seriously adverse, but that denial of the proposal is not warranted in light of the considerations discussed below.

Bank has experienced financial and managerial problems in recent years that have reduced its effectiveness as a competitor. The financial and managerial resources and prospects of the organization that would result from the proposed merger, would have a positive impact on the operations of Bank without diminishing the prospects of Applicant. The financial and managerial resources and prospects of Applicant are satisfactory and, as a result of this proposal, Bank's customers will be served by a stronger banking organization. In terms of convenience and needs, Applicant proposes to expand and improve the services offered at Bank's banking offices by increasing the effective interest rate paid on passbook savings and by offering additional services, including commercial and corporate trust services, cash management, cash disbursement, and economic forecasting services. Applicant also proposes to offer lease financing, FHA construction credit, and individual FHA and VA loans. In light of the above, considerations so favor approval as to outweigh the serious adverse competitive effects associated with this proposal.

The Connecticut Bank and Trust Company, Hartford, Connecticut, ***to merge with*** **The Danbury Bank and Trust Company, Danbury, Connecticut**

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (9-12-80)
The Connecticut Bank and Trust Company (Applicant), with assets of $3 billion, proposes to merge The Danbury Bank and Trust Company (Bank), with assets of $30 million. Applicant is the sole banking subsidiary of CBT Corporation, Hartford, Connecticut, which is the largest commercial banking organization in the state, with 17.6 percent of the deposits. If the proposed merger takes place, CBT Corporation would hold 17.9 percent of the deposits held by commercial banking offices in Connecticut.

Proponents' closest offices are 2.3 miles apart, with offices of other banks situated in the intervening area. The relevant market in the instant proposal is the Danbury banking market, where Applicant, with 1.7 percent of the area deposits, ranks eighth among eleven commercial banking organizations. If the proposed merger is consummated, the resulting institution would rank fifth in the Danbury market, with 9.3 percent of the area deposits. Home office protection would be removed from Danbury after this merger.

Although affiliation would eliminate existing competition, it would also immediately open the city of Danbury to branching by other commercial banks and would allow Applicant, the largest commercial bank in the state, to operate in the core of this banking market. After the merger, ten commercial banking organizations and numerous thrift institutions would still remain in the Danbury market, providing adequate banking alternatives for businesses and consumers.

The banking factors are consistent with approval.

Security Savings Bank, Marshalltown, Iowa, ***to merge with*** **State Bank, Gladbrook, Iowa**

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-29-80)
The proposed transaction would not have an adverse effect on competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (9-30-80)
Security Savings Bank (Applicant), with assets of $99 million, proposes to merge State Bank, with assets of $2 million. Applicant's offices are in the Marshalltown banking market, whereas the sole

office of State Bank is in the adjacent Tama County banking market, where it is the smallest of eight banks, with 1.6 percent of the deposits. Thus there is no effective competition existing between proponents. Further, the Tama County banking market does not appear overly attractive for de novo entry.

The financial condition of each of the banks is satisfactory, as would be that of the resulting bank. Applicant proposes to raise interest rates on time and savings deposits at the office now operated by State Bank from 2 percent to the maximum rate allowed by law, and to offer certificates of deposit. Further, Applicant intends to extend the hours that the Gladbrook office is open to the public. Convenience and need factors lend weight to approval.

The Central Trust Company, Reynoldsburg, Ohio, ***to merge with*** **The Millersport Bank Co., Millersport, Ohio**

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE SECRETARY, BOARD OF GOVERNORS (10-17-80)

The Central Trust Company (Applicant), with assets of $166 million, proposes to acquire The Millersport Bank Co. (Bank), with assets of $8 million. Applicant, a subsidiary of Central Bancorporation, Cincinnati, Ohio (Bancorporation), operates 21 offices, 15 in the Columbus banking market and 6 in the Zanesville market. The sole office of Millersport Bank is in the Columbus banking market, 13 miles from the nearest office of Applicant.

Bancorporation's only commercial banking subsidiary in the Columbus banking market is Applicant. Bancorporation ranks fifth among 24 banking organizations in the Columbus market, with 3.3 percent of the total area deposits. If the instant proposal were consummated, the resulting bank would rank fifth in the market, with 3.5 percent of the deposits. The proposed acquisition would have no significant effect on competition.

The instant proposal would improve the level of services at the office now operated by Bank. Equipment leasing, international banking services, commercial construction lending, and trust services would be made available through the Millersport office of the resulting bank.

Bank's condition is considered reasonably satisfactory; Bancorporation's, sound; and Applicant's, satisfactory. The proposed acquisition would not alter this situation.

First Virginia Bank-South Central, Brookneal, Virginia, ***to merge with*** **The Farmers and Merchants Bank, Inc., of Amherst, Amherst, Virginia**

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-17-80)

The proposed transaction would not have a significantly adverse effect upon competition.

BASIS FOR APPROVAL BY THE FEDERAL RESERVE BANK (11-10-80)

First Virginia Bank-South Central (Applicant), a subsidiary of First Virginia Banks, Inc., Falls Church, Virginia (FVB), has assets of $7 million and proposes to merge The Farmers and Merchants Bank, Inc., of Amherst (Bank), with assets of $11 million. Bank's sole branch is at Madison Heights. The nearest offices of proponents are 37 road miles apart. While Applicant does not now operate a branch, it has received permission to establish a branch in Campbell County, in the Timbrook Square shopping center, 13 miles from the nearest office of Bank. FVB is not now represented in the Lynchburg banking market, where Bank ranks sixth among seven banking organizations, with 2.2 percent of the area deposits. In Virginia, FVB ranks seventh among commercial banking organizations, with approximately 7 percent of the deposits.

Banking factors are consistent with approval. Convenience and need factors lend weight to approval, for FVB could provide additional services at the offices now operated by Bank.

20. Mergers, Consolidations, Acquisitions of Assets or Assumptions of Liabilities Approved by the Board of Governors, 1980—Continued

Mergers Approved Involving Wholly Owned Subsidiaries of the Same Bank Holding Company

The following transactions involve banks that are subsidiaries of the same bank holding company. In such cases, the Summary Report by the Attorney General indicates that because the banks are wholly owned subsidiaries of the same bank holding company, their proposed merger is essentially a corporate reorganization and therefore would have no effect on competition. The Board of Governors or the Federal Reserve Bank, whichever approved the application, determined that the competitive effects of the proposed transaction, the financial and managerial resources, and the prospects of the banks concerned, as well as the convenience and needs of the community to be served were consistent with approval.

Name of bank, type of transaction, and other banks involved [1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
AmeriTrust Company, Cleveland, Ohio	4,697	2-21-80
Merger		
AmeriTrust Company of Franklin County, Columbus, Ohio	25	
AmeriTrust Company of Lorain County, Lorain, Ohio	53	
AmeriTrust Company of Lake County, Painesville, Ohio	135	
Long Island Trust Company, Garden City, New York	918	8-1-80
Merger		
Long Island Bank, Hicksville, New York	173	
Bank of Virginia, Richmond, Virginia	2,318	9-24-80
Merger		
Bank of Virginia-Central Valley, Verona, Virginia	10	
AmeriTrust Company, Cleveland, Ohio	4,697	10-3-80
Merger		
AmeriTrust Company of Cincinnati, Cincinnati, Ohio	([2])	
AmeriTrust Company of Portage County, Kent, Ohio	61	
AmeriTrust Company of Medina County, Medina, Ohio	28	

1. Each proposed transaction was to be effective under the charter of the first-named bank. The table is in chronological order of approval.
2. Opened for business on Mar. 26, 1980.

Mergers Approved Involving a Nonoperating Institution with an Existing Bank

The following transactions have no significant effect on competition; they merely facilitate the acquisition of the voting shares of a bank (or banks) by a bank holding company. In such cases, the Summary Report by the Attorney General indicates that the transaction would merely combine an existing bank with a nonoperating institution; in consequence, and without regard to the acquisition of the surviving bank by the holding company, it would have no effect on competition. The Board or Federal Reserve Bank, whichever approved the application, determined that the proposal would, in itself, have no adverse competitive effects, and that the financial and convenience and need factors were consistent with approval.

20—Continued

Name of bank, type of transaction, and other banks involved [1]	Assets (millions of dollars)	Date of approval by Board or Reserve Bank
Bank of Virginia-Wise, St. Paul, Virginia	(2)	2-5-80
Mergers		
The Southwest Bank of Virginia, St. Paul, Virginia	11	
Bank of Virginia, Richmond, Virginia	2,002	
Bank of Frederick County, Stephens City, Virginia	(2)	2-25-80
Merger		
First Virginia Bank of Frederick County, Stephens City, Virginia	12	
HSB Bank, Hillsdale, Michigan	(2)	3-25-80
Merger		
Hillsdale State Savings Bank, Hillsdale, Michigan	61	
Soulard Bank & Trust Company, St. Louis, Missouri	(2)	4-18-80
Merger		
Manufacturers Bank & Trust Company, St. Louis, Missouri	172	
SM Bank, Springfield, Illinois	(2)	6-9-80
Merger		
Springfield Marine Bank, Springfield, Illinois	457	
The Dime Bank of Northwest Ohio, Continental, Ohio	(2)	6-19-80
Merger		
The Dime Bank of Continental, Continental, Ohio	16	
The Dime Bank of Huntsville, Huntsville, Ohio	12	
The Dime Bank of McClure, McClure, Ohio	13	
Ohio Citizens Bank, Toledo, Ohio	(2)	6-30-80
Merger		
The Ohio Citizens Trust Company, Toledo, Ohio	560	
Graham Drive State Bank, Tomball, Texas	(2)	7-30-80
Merger		
Guaranty Bond State Bank, Tomball, Texas	56	
Shelbank, Alabaster, Alabama	(2)	8-29-80
Merger		
Citizens Bank and Trust Company, Alabaster, Alabama	7	
Firstate Bank, Abilene, Texas	(2)	11-4-80
Merger		
The First State Bank, Abilene, Texas	333	

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1. Each proposed transaction was to be effected under the charter of the first-named bank. The table is in chronological order of approval.
2. This is a newly organized bank, not in operation.

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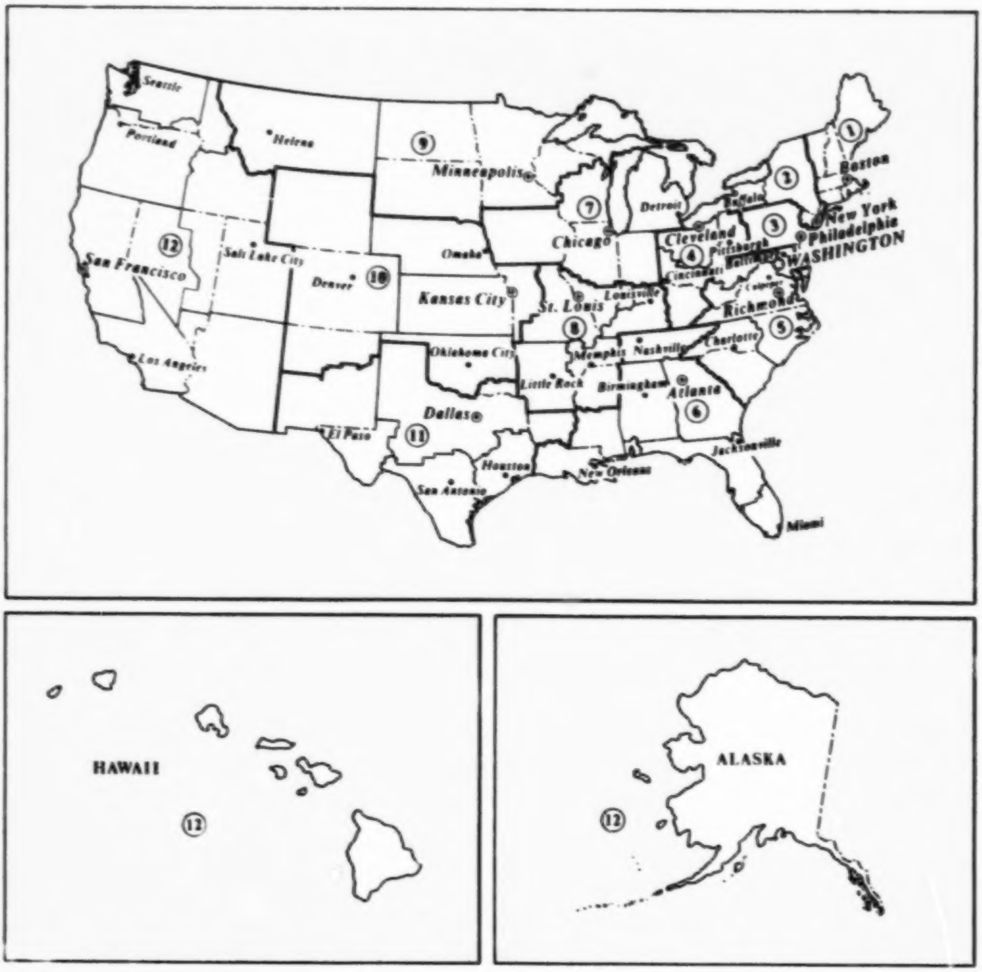
The Federal Reserve System

Boundaries of Federal Reserve Districts and their Branch Territories


Seattle
Portland
Helena
⑨
Minneapolis
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Boston
②
Buffalo
Detroit
⑦
Chicago
③
New York
Philadelphia
WASHINGTON
Cleveland
④
Pittsburgh
Baltimore
Cincinnati
Culpeper
Richmond
⑤
Charlotte
⑫
San Francisco
Salt Lake City
Denver
⑩
Omaha
Kansas City
St. Louis
Louisville
⑧
Memphis
Nashville
Oklahoma City
Little Rock
Birmingham
Atlanta
⑥
Los Angeles
Dallas
El Paso
⑪
Houston
San Antonio
New Orleans
Jacksonville
Miami
HAWAII
⑫
ALASKA
⑫

Legend

—— Boundaries of Federal Reserve Districts
—— Boundaries of Federal Reserve Branch Territories
○ Board of Governors of the Federal Reserve System
◉ Federal Reserve Bank Cities
• Federal Reserve Branch Cities
• Federal Reserve Bank Facilities

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Federal Reserve Directories and Meetings

Board of Governors of the Federal Reserve System

December 31, 1980

	Term expires
Paul A. Volcker, of New Jersey, *Chairman* [1]	January 31, 1992
Frederick H. Schultz, of Florida, *Vice Chairman* [1]	January 31, 1982
Nancy H. Teeters, of Indiana	January 31, 1984
J. Charles Partee, of Virginia	January 31, 1986
Henry C. Wallich, of Connecticut	January 31, 1988
Emmett J. Rice, of New York	January 31, 1990
Lyle E. Gramley, of Missouri	January 31, 1994

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Frank O'Brien, Jr., *Special Asst. to the Board*
Joseph S. Sims, *Special Asst. to the Board*

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Normand R. V. Bernard, *Special Asst. to the Board*

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Joseph W. Daniels, Sr., *Director of Equal Employment Opportunity*

OFFICE OF STAFF DIRECTOR FOR FEDERAL RESERVE BANK ACTIVITIES

William H. Wallace, *Staff Director*
Harry A. Guinter, *Asst. Director for Contingency Planning*

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Barbara R. Lowrey, *Asst. Secretary*
James McAfee, *Asst. Secretary*
Jefferson A. Walker, *Asst. Secretary* [2]

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Gilbert T. Schwartz, *Asst. General Counsel*

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Michael J. Prell, *Assoc. Director*
Robert A. Eisenbeis, *Senior Deputy Assoc. Director*
John J. Mingo, *Senior Deputy Assoc. Director* [3]
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Jared J. Enzler, *Deputy Assoc. Director*
J. Cortland G. Peret, *Deputy Assoc. Director*
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Martha Bethea, *Asst. Director*
Robert M. Fisher, *Asst. Director*
Frederick M. Struble, *Asst. Director*
Stephen P. Taylor, *Asst. Director*
Levon H. Garabedian, *Asst. Director (Administration)*

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[1] The designations as Chairman and Vice Chairman expire on Aug. 6, 1983, and July 27, 1983, respectively, unless the services of these members of the Board shall have terminated sooner.

[2] On loan from the Federal Reserve Bank of Richmond.

[3] On leave of absence.

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Samuel Pizer, *Staff Adviser*
Jeffrey R. Shafer, *Deputy Assoc. Director*
Dale W. Henderson, *Asst. Director*
Larry J. Promisel, *Asst. Director*
Ralph W. Smith, Jr., *Asst. Director*

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Lorin S. Meeder, *Asst. Director*
P. D. Ring, *Asst. Director*
David L. Robinson, *Asst. Director*
Raymond L. Teed, *Asst. Director*

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Frederick R. Dahl, *Assoc. Director*
William Taylor, *Assoc. Director*
William W. Wiles, *Assoc. Director*
Jack M. Egertson, *Asst. Director*
Robert A. Jacobsen, *Asst. Director*
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Thomas A. Sidman, *Asst. Director*
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Jerauld C. Kluckman, *Assoc. Director*
Glenn E. Loney, *Asst. Director*
Dolores S. Smith, *Asst. Director*

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Charles W. Wood, *Asst. Director*

DIVISION OF SUPPORT SERVICES

Donald E. Anderson, *Director*
Walter W. Kreimann, *Assoc. Director*
Robert E. Frazier, *Asst. Director*

OFFICE OF THE CONTROLLER

John Kakalec, *Controller*
George E. Livingston, *Asst. Controller*

DIVISION OF DATA PROCESSING

Charles L. Hampton, *Director*
Bruce M. Beardsley, *Assoc. Director*
Uyless D. Black, *Asst. Director*
Glenn L. Cummins, *Asst. Director*
Robert J. Zemel, *Asst. Director*

Federal Open Market Committee

December 31, 1980

Members

Paul A. Volcker, *Chairman* (Board of Governors)

Anthony M. Solomon, *Vice Chairman* (elected by Federal Reserve Bank of New York)

Lyle E. Gramley (Board of Governors)

Roger Guffey (elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)

Frank E. Morris (elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

J. Charles Partee (Board of Governors)

Emmett J. Rice (Board of Governors)

Lawrence K. Roos (elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)

Frederick H. Schultz (Board of Governors)

Nancy H. Teeters (Board of Governors)

Henry C. Wallich (Board of Governors)

Willis J. Winn (elected by Federal Reserve Banks of Cleveland and Chicago)

Officers

Murray Altmann,
Secretary

Normand R. V. Bernard,
Assistant Secretary

Neal L. Petersen,
General Counsel

James H. Oltman,
Deputy General Counsel

Robert E. Mannion,
Assistant General Counsel

Stephen H. Axilrod,
Economist

Alan R. Holmes,
Adviser for Market Operations

Anatol Balbach,
Associate Economist

John Davis,
Associate Economist

Richard G. Davis,
Associate Economist

Thomas Davis,
Associate Economist

Robert Eisenmenger,
Associate Economist

Edward C. Ettin,
Associate Economist

George B. Henry,
Associate Economist

Peter M. Keir,
Associate Economist

James L. Kichline,
Associate Economist

Edwin M. Truman,
Associate Economist

Joseph S. Zeisel,
Associate Economist

Peter D. Sternlight, *Manager for Domestic Operations,*
System Open Market Account

Scott E. Pardee, *Manager for Foreign Operations,*
System Open Market Account

During 1980, meetings of the Federal Open Market Committee were generally held at monthly intervals. (See "Record of Policy Actions of the Federal Open Market Committee" in this Report.)

Federal Advisory Council

December 31, 1980

Members

District No. 1—Henry S. Woodbridge, Jr., *President,* Rhode Island Hospital Trust National Bank, Providence, Rhode Island

District No. 2—Donald C. Platten, *Chairman of the Board,* Chemical Bank, New York, New York

District No. 3—William B. Eagleson, Jr., *Chairman and President,* Girard Bank, Bala Cynwyd, Pennsylvania

District No. 4—Merle E. Gilliand, *Chairman and Chief Executive Officer,* Pittsburgh National Bank, Pittsburgh, Pennsylvania

District No. 5—J. Owen Cole, *Chairman of the Board,* First National Bank of Maryland, Baltimore, Maryland

District No. 6—Robert Strickland, *Chairman,* Trust Company of Georgia, Atlanta, Georgia

District No. 7—Robert M. Surdam, *Chairman,* National Bank of Detroit, Detroit, Michigan

District No. 8—Clarence C. Barksdale, *Chairman of the Board and Chief Executive Officer,* First National Bank in St. Louis, St. Louis, Missouri

District No. 9—Clarence G. Frame, *President and Chief Executive Officer,* First National Bank of St. Paul, St. Paul, Minnesota

District No. 10—Gordon E. Wells, *Chairman of the Board,* First National Bank of Kansas City, Kansas City, Missouri

District No. 11—James D. Berry, *Chairman of the Board and Chief Executive Officer,* Republic of Texas Corporation, Dallas, Texas

District No. 12—Chauncey E. Schmidt, *Chairman of the Board, President, and Chief Executive Officer,* The Bank of California, N.A., San Francisco, California

Officers

Clarence C. Barksdale, *President*
James D. Berry, *Vice President*
Herbert V. Prochnow, *Secretary*
William J. Korsvik, *Associate Secretary*

Directors

Merle E. Gilliand
Chauncey E. Schmidt
Henry S. Woodbridge, Jr.

Meetings of the Federal Advisory Council were held on February 7-8, March 14, May 1-2, September 4-5, and November 6-7, 1980. The Board of Governors met with the council on February 8, March 14, May 2, September 5, and November 7, 1980. The council, which is composed of 12 representatives of the banking industry, one from each Federal Reserve District, is required by law to meet in Washington at least four times each year, and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

Consumer Advisory Council

December 31, 1980

WILLIAM D. WARREN, Los Angeles, California, *Chairman*
MARCIA A. HAKALA, Omaha, Nebraska, *Vice Chairman*

JULIA H. BOYD,
Alexandria, Virginia
ROLAND E. BRANDEL,
San Francisco, California
ELLEN BROADMAN,
Washington, D.C.
JAMES L. BROWN,
Milwaukee, Wisconsin
MARK E. BUDNITZ,
Atlanta, Georgia
ROBERT V. BULLOCK,
Frankfort, Kentucky
RICHARD S. D'AGOSTINO,
Philadelphia, Pennsylvania
JOANNE FAULKNER,
New Haven, Connecticut
VERNARD W. HENLEY,
Richmond, Virginia
JUAN J. HINOJOSA,
McAllen, Texas
SHIRLEY T. HOSOI,
Los Angeles, California
F. THOMAS JUSTER,
Ann Arbor, Michigan
RICHARD F. KERR,
Cincinnati, Ohio
ERT J. KLEIN,
New York, New York
HARVEY M. KUHNLEY,
Minneapolis, Minnesota
THE REV. ROBERT J. MCEWEN, S.J.,
Chestnut Hill, Massachusetts
R. C. MORGAN,
El Paso, Texas
MARGARET REILLY-PETRONE,
Upper Montclair, New Jersey
RENE REIXACH,
Rochester, New York
FLORENCE M. RICE,
New York, New York
RALPH J. ROHNER,
Washington, D.C.
HENRY B. SCHECHTER,
Washington, D.C.
PETER D. SCHELLIE,
Washington, D.C.
E. G. SCHUHART II,
Amarillo, Texas
CHARLOTTE H. SCOTT,
Charlottesville, Virginia
RICHARD A. VAN WINKLE,
Salt Lake City, Utah
RICHARD D. WAGNER,
Simsbury, Connecticut
MARY W. WALKER,
Monroe, Georgia
LEONOR K. SULLIVAN-ARCHIBALD,
Chairman Emeritus,
St. Louis, Missouri

Meetings between the Consumer Advisory Council and members of the Board of Governors were held on January 28–29, April 28–29, July 30–31, and October 30–31, 1980. The council, which is composed of creditors, consumers, and others, was established pursuant to the Equal Credit Opportunity Act to advise the Board on consumer-related matters.

Federal Reserve Banks and Branches

December 31, 1980

Chairmen and Deputy Chairmen of Boards of Directors

Federal Reserve Bank	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	Robert M. Solow	Robert P. Henderson
New York	Robert H. Knight	Boris Yavitz
Philadelphia	John W. Eckman	Werner C. Brown
Cleveland	Robert E. Kirby	J. L. Jackson
Richmond	Maceo A. Sloan	Steven Muller
Atlanta	William A. Fickling, Jr.	John H. Weitnauer, Jr.
Chicago	John Sagan	Stanton R. Cook
St. Louis	Armand C. Stalnaker	William B. Walton
Minneapolis	Stephen F. Keating	William G. Phillips
Kansas City	Joseph H. Williams	Paul H. Henson
Dallas	Irving A. Mathews	Gerald D. Hines
San Francisco	Cornell C. Maier	Caroline L. Ahmanson

Conference of Chairmen

The chairmen of the Federal Reserve Banks are organized into a Conference of Chairmen that meets to consider matters of common interest and to consult with and advise the Board of Governors. Such meetings, attended also by the deputy chairmen, were held in Washington on June 3-4 and December 4-5, 1980.

The Executive Committee of the Conference of Chairmen during 1980 comprised John W. Eckman, Chairman, Stephen F. Keating, Vice Chairman, and Robert E. Kirby and Irving A. Mathews, members.

On December 5, 1980, Mr. Keating was elected chairman of the conference and of its Executive Committee to serve for the succeeding year; Cornell C. Maier was elected Vice Chairman of the conference and a member of the Executive Committee; and John Sagan was elected as the other member of the Executive Committee.

Directors

Class A and Class B directors are elected by the member banks of a Federal Reserve District. Class C directors are appointed by the Board of Governors of the Federal Reserve System. One term in each class of directors expires each year. Directors are chosen without discrimination as to race, creed, color, sex, or national origin.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. Class B and Class C directors represent the public and are selected with due, but not exclusive, consideration to the interests of agriculture, commerce, industry, services, labor, and consumers. Class B and Class C directors may not be officers, directors, or employees of any bank, nor may Class C directors be stockholders of any bank. Annually, the Board of Governors designates one Class C director of each Reserve Bank to serve as chairman of the Bank and one to serve as deputy chairman.

Branches of Federal Reserve Banks have either five or seven directors, of whom a majority are appointed by the board of directors of the parent Federal Reserve Bank. The others are appointed by the Board of Governors of the Federal Reserve System. The chairmen of branch boards are selected from among directors appointed by the Board of Governors.

District 1—BOSTON

Class A

		Term expires Dec. 31
Richard D. Hill	Chairman of the Board, First National Boston Corporation, Boston, Massachusetts	1980
Fred A. White	President, Dartmouth National Bank of Hanover, Hanover, New Hampshire	1981
H. Alan Timm	President, Bank of Maine, N.A., Augusta, Maine	1982

Class B

Weston P. Figgins	Chairman of the Board, Wm. Filene's Sons Company, Boston, Massachusetts	1980
Robert D. Kilpatrick	President and Chief Executive Officer, Connecticut General Life Insurance Company, Hartford, Connecticut	1981
Carol R. Goldberg	Senior Vice President, The Stop & Shop Companies, Inc., Boston, Massachusetts	1982

Class C

Robert M. Solow	Institute Professor, Massachusetts Institute of Technology, Cambridge, Massachusetts	1980
Robert P. Henderson	President and Chief Executive Officer, Itek Corp., Lexington, Massachusetts	1981
Thomas I. Atkins	General Counsel, National Association for the Advancement of Colored People, New York, New York	1982

District 2—NEW YORK

Class A

Raymond W. Bauer	Chairman and President, United Counties Trust Company, Elizabeth, New Jersey	1980
James Whelden	President, Ballston Spa National Bank, Ballston Spa, New York	1981
Gordon T. Wallis	Chairman of the Board, Irving Trust Company, New York, New York	1982

Class B

William S. Sneath	Chairman of the Board, Union Carbide Corporation, New York, New York	1980
Edward L. Hennessey, Jr.	Chairman of the Board, Allied Chemical Corporation, Morristown, New Jersey	1981
William S. Cook	President, Union Pacific Corporation, New York, New York	1982

Class C

Robert H. Knight	Partner, Shearman and Sterling, Attorneys, New York, New York	1980
Gertrude G. Michelson	Senior Vice President, Macy's New York, New York, New York	1981
Boris Yavitz	Dean, Graduate School of Business, Columbia University, New York, New York	1982

BUFFALO BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
William S. Gavitt	President, The Lyons National Bank, Lyons, New York	1980
Robert J. Donough	President, Liberty National Bank and Trust Company, Buffalo, New York	1981
M. Jane Dickman	Partner, Touche Ross & Co., Buffalo, New York	1982
Arthur M. Richardson	President and Chief Executive Officer, Security Trust Company, Rochester, New York	1982
Appointed by Board of Governors		
John R. Burwell	President, Rollins Container Corporation, Rochester, New York	1980
George L. Wessel	President, Buffalo AFL-CIO Council, Buffalo, New York	1981
Frederick D. Berkeley III	Chairman of the Board and President, Graham Manufacturing Company, Inc., Batavia, New York	1982

District 3—PHILADELPHIA

		Term expires Dec. 31
Class A		
John R. Biechler	President and Chief Executive Officer, The Commonwealth National Bank, Harrisburg, Pennsylvania	1980
Robert H. Deacon	President, The Bank of Mid-Jersey, Bordentown, New Jersey	1981
Donald J. Seebold	President, The First National Bank of Danville, Danville, Pennsylvania	1982
Class B		
Harry A. Jensen	President and Chief Executive Officer, Armstrong Cork Company, Lancaster, Pennsylvania	1980
Richard P. Hauser	Chairman and Chief Executive Officer, John Wanamaker, Philadelphia, Pennsylvania	1981
Eberhard Faber	Chairman of the Board and Chief Executive Officer, Eberhard Faber, Inc., Wilkes-Barre, Pennsylvania	1982
Class C		
Werner C. Brown	Director, Hercules Incorporated, Wilmington, Delaware	1980
John W. Eckman	Chairman and Chief Executive Officer, Rorer Group, Inc., Fort Washington, Pennsylvania	1981
Jean A. Crockett	Chairman, Department of Finance, and Professor of Finance, Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania	1982

District 4—CLEVELAND

		Term expires Dec. 31
Class A		
John A. Gelbach	Chairman of the Board, Central National Bank, Cleveland, Ohio	1980
Everett L. Maffett	President and Chief Executive Officer, Eaton National Bank & Trust Co., Eaton, Ohio	1981
John W. Alford	Chairman of the Board and Chief Executive Officer, The Park National Bank, Newark, Ohio	1982
Class B		
Hays T. Watkins	Chairman and President, Chessie System, Cleveland, Ohio	1980
Jeffery A. Robb	Managing Partner, Audit Division, Proctor, Robb and Company, Granville, Ohio	1981
John W. Kessler	President, John W. Kessler Company, Columbus, Ohio	1982
Class C		
Vacant		1980
J. L. Jackson	President, Falcon Coal Company Inc., Lexington, Kentucky	1981
Robert E. Kirby	Chairman and Chief Executive Officer, Westinghouse Electric Corporation, Pittsburgh, Pennsylvania	1982

CINCINNATI BRANCH

Appointed by Federal Reserve Bank		
Walter W. Hillenmeyer, Jr.	Chairman and Chief Executive Officer, First Security National Bank and Trust Company, Lexington, Kentucky	1980
Lawrence C. Hawkins	Senior Vice President, University of Cincinnati, Cincinnati, Ohio	1981
Elden Houts	President, The Citizens Commercial Bank and Trust Company, Celina, Ohio	1981
Oliver W. Birckhead	Chairman of the Board and Chief Executive Officer, The Central Trust Company, N.A., Cincinnati, Ohio	1982
Appointed by Board of Governors		
Lawrence H. Rogers II	President and Chief Executive Officer, Omega Communications, Inc., Cincinnati, Ohio	1980
Martin B. Friedman	Director, Formica Corporation, Cincinnati, Ohio	1981
Sister Grace Marie Hiltz	President, Sisters of Charity Health Care Systems, Inc., Cincinnati, Ohio	1982

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
J. David Barnes	President, Mellon Bank, N.A., Pittsburgh, Pennsylvania	1980
Thomas V. Mansell	President and Chief Executive Officer, First National Bank of Western Pennsylvania, New Castle, Pennsylvania	1981
R. Burt Gookin	Director, H. J. Heinz Co., Pittsburgh, Pennsylvania	1981
William D. McKain	President, Wheeling National Bank, Wheeling, West Virginia	1982

Appointed by Board of Governors

Milton G. Hulme, Jr.	President and Chief Executive Officer, Mine Safety Appliances Company, Pittsburgh, Pennsylvania	1980
William H. Knoell	President, Cyclops Corporation, Pittsburgh, Pennsylvania	1981
Robert S. Kaplan	Dean, Graduate School of Industrial Administration, Carnegie-Mellon University, Pittsburgh, Pennsylvania	1982

District 5—RICHMOND

Class A

Frederic H. Phillips	Senior Vice President, Virginia National Bank, Roanoke, Virginia	1980
Vincent C. Burke, Jr.	Chairman of the Board and Chief Executive Officer, The Riggs National Bank of Washington, D.C., Washington, D.C.	1981
William M. Dickson	President and Senior Trust Officer, First National Bank in Ronceverte, Ronceverte, West Virginia	1982

Class B

Thomas A. Jordan	Consultant, Asheboro, North Carolina	1980
Paul G. Miller	Chairman of the Board and Chief Executive Officer, Commercial Credit Company, Baltimore, Maryland	1981
James A. Chapman, Jr.	Chairman of the Board and Chief Executive Officer, Inman Mills, Inman, South Carolina	1982

Class C

Steven Muller	President, The Johns Hopkins University and Hospital, Baltimore, Maryland	1980
Maceo A. Sloan	Executive Vice President and Chief Operating Officer, North Carolina Mutual Life Insurance Company, Durham, North Carolina	1981
Paul E. Reichardt	Chairman of the Board and Chief Executive Officer, Washington Gas Light Company, Washington, D.C.	1982

BALTIMORE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Joseph M. Gough, Jr.	President, The First National Bank of St. Mary's, Leonardtown, Maryland	1980
Pearl C. Brackett	Assistant/Deputy Manager, Baltimore Regional Chapter of American Red Cross, Baltimore, Maryland	1981
Hugh D. Shires	President and Chief Executive Officer, The First National Bank and Trust Company of Western Maryland, Cumberland, Maryland	1982
A. R. Reppert	President, The Union National Bank of Clarksburg, Clarksburg, West Virginia	1982

Appointed by Board of Governors

		Term expires Dec. 31
Catherine Byrne Doehler	Director of Development, Baltimore Regional Chapter of American Red Cross, Baltimore, Maryland	1980
Joseph H. McLain	President, Washington College, Chestertown, Maryland	1981
Edward H. Covell	Vice President, Country Pride Foods Limited, General Manager, Delmarva Division, Easton, Maryland	1982

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
John T. Fielder	President, J. B. Ivey and Company, Charlotte, North Carolina	1980
Hugh M. Chapman	Chairman of the Board, The Citizens & Southern National Bank of South Carolina, Columbia, South Carolina	1981
J. Banks Scarborough	Chairman and President, Pee Dee State Bank, Timmonsville, South Carolina	1982
W. B. Apple, Jr.	President, First National Bank of Reidsville, Reidsville, North Carolina	1982

Appointed by Board of Governors

		Term expires Dec. 31
Robert E. Elberson	President, Chief Executive Officer, and Director, Hanes Corporation, Winston-Salem, North Carolina	1980
Henry Ponder	Office of the President, Benedict College, Columbia, South Carolina	1981
Naomi G. Albanese	Dean, School of Home Economics, University of North Carolina at Greensboro, Greensboro, North Carolina	1982

District 6—ATLANTA

Class A

		Term expires Dec. 31
Hugh M. Willson	President, Citizens National Bank, Athens, Tennessee	1980
Guy W. Botts	Chairman of the Board, Barnett Banks of Florida, Inc., Jacksonville, Florida	1981
Dan B. Andrews	President, First National Bank of Dickson, Dickson, Tennessee	1982

Class B

		Term expires Dec. 31
Ulysses V. Goodwyn	Executive Vice President, Southern Natural Resources, Inc., Birmingham, Alabama	1980
Floyd W. Lewis	Chairman of the Board and Chief Executive Officer, Middle South Utilities, Inc., New Orleans, Louisiana	1981
Jean McArthur Davis	President, McArthur Dairy, Inc., Miami, Florida	1982

Class C

		Term expires Dec. 31
William A. Fickling, Jr.	President and Chairman, Charter Medical Corporation, Macon, Georgia	1980
Fred Adams, Jr.	President, Cal-Maine Foods, Inc., Jackson, Mississippi	1981
John H. Weitnauer, Jr.	Chairman and Chief Executive Officer, Richway, Atlanta, Georgia	1982

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
George S. Shirley	President, The First National Bank of Tuskaloosa, Tuscaloosa, Alabama	1980
Guy H. Caffey, Jr.	Chairman and Chief Executive Officer, Southern Bancorporation of Alabama and Birmingham Trust National Bank, Birmingham, Alabama	1981
C. Gordon Jones	President and Chief Executive Officer, First National Bank of Decatur, Decatur, Alabama	1982
Martha A. McInnis	Executive Vice President, Alabama Environmental Quality Association, Montgomery, Alabama	1982

Appointed by Board of Governors

		Term expires Dec. 31
Harold B. Blach, Jr.	President, Blach's, Inc., Birmingham, Alabama	1980
Louis J. Willie	Executive Vice President, Booker T. Washington Insurance Co., Birmingham, Alabama	1981
William H. Martin III	President and Chief Executive Officer, Martin Industries, Inc., Florence, Alabama	1982

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
C. DuBose Ausley	Chairman of the Board, Capital City First National Bank, Tallahassee, Florida	1980
Robert E. Warfield, Jr.	Chairman and President, The First National Bank and Trust Company, Eustis, Florida	1981
W. M. Palmer, Jr.	Chairman, Florida Crushed Stone Company, Ocala, Florida	1982
Billy J. Walker	President, Atlantic Bancorporation, Jacksonville, Florida	1982

Appointed by Board of Governors

		Term expires Dec. 31
Joan W. Stein	Partner, Regency Square Shopping Center, Jacksonville, Florida	1980
Jerome P. Keuper	President, Florida Institute of Technology, Melbourne, Florida	1981
Copeland D. Newbern	Chairman of the Board, Newbern Groves, Inc., Tampa, Florida	1982

MIAMI BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Tully F. Dunlap	Chairman, Florida National Bank, Miami, Florida	1980
Jane C. Cousins	President, Cousins Associates, Inc., Miami, Florida	1981
Alfred W. Roepstorff	President, National Bank of Collier County, Marco Island, Florida	1981
M. G. Sanchez	President and Chief Executive Officer, First Bankers Corporation of Florida, Pompano Beach, Florida	1982

Appointed by Board of Governors

		Term expires Dec. 31
David G. Robinson	President, Edison Community College, Fort Myers, Florida	1980
Roy W. Vandegrift, Jr.	President, Vandegrift-Williams Farms, Inc., Pahokee, Florida	1981
David H. Rush	President, ACR Electronics, Inc., Hollywood, Florida	1982

NASHVILLE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
James R. Austin	Chairman and Chief Executive Officer, Peoples National Bank, Shelbyville, Tennessee	1980
Ruth W. Ellis	President, Mountain Empire Bank, Johnson City, Tennessee	1981
Charles J. Kane	Chairman and Chief Executive Officer, Third National Bank in Nashville, Nashville, Tennessee	1982
John R. King	President, The Mason and Dixon Lines, Inc., Kingsport, Tennessee	1982

Appointed by Board of Governors		*Term expires Dec. 31*
Robert C. H. Mathews, Jr.	President, R. C. Mathews, Contractor, Inc., Nashville, Tennessee	1980
John C. Bolinger, Jr.	Management Consultant, Knoxville, Tennessee	1981
Cecelia Adkins	Executive Director, Sunday School Publishing Board, Nashville, Tennessee	1982

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank

William E. Howard, Jr.	Chairman of the Board, Commercial National Bank and Trust Company of Laurel, Laurel, Mississippi	1980
Robert H. Bolton	President, Rapides Bank and Trust Company in Alexandria, Alexandria, Louisiana	1981
Patrick A. Delaney	President, Whitney National Bank of New Orleans, New Orleans, Louisiana	1982
Ben M. Radcliff	President, Ben M. Radcliff Contractor, Inc., Mobile, Alabama	1982

Appointed by Board of Governors

George C. Cortright, Jr.	Partner, George C. Cortright Company, Rolling Fork, Mississippi	1980
Horatio C. Thompson	President, Horatio Thompson Investment, Inc., Baton Rouge, Louisiana	1981
Levere C. Montgomery	Chairman, Time Saver Stores, Inc., New Orleans, Louisiana	1982

District 7—CHICAGO

Class A

John F. Spies	President, Iowa Trust and Savings Bank, Emmetsburg, Iowa	1980
Roger E. Anderson	Chairman of the Board, Continental Illinois National Bank and Trust Co. of Chicago, Chicago, Illinois	1981
Patrick E. McNarny	President, First National Bank of Logansport, Logansport, Indiana	1982

Class B

Arthur J. Decio	Chairman of the Board and Chief Executive Officer, Skyline Corporation, Elkhart, Indiana	1980
Dennis W. Hunt	President, Hunt Truck Lines, Inc., Rockwell City, Iowa	1981
Mary Garst	Manager of Cattle Division, Garst Company, Coon Rapids, Iowa	1982

Class C

		Term expires Dec. 31
John Sagan	Vice President-Treasurer, Ford Motor Company, Dearborn, Michigan	1980
Edward F. Brabec	Business Manager, Chicago Journeymen Plumbers, Local Union 130, U.A., Chicago, Illinois	1981
Stanton R. Cook	President, Tribune Company, Chicago, Illinois	1982

DETROIT BRANCH

Appointed by Federal Reserve Bank

Lawrence A. Johns	President, Isabella Bank and Trust, Mount Pleasant, Michigan	1980
Charles R. Montgomery	President, Michigan Consolidated Gas Company, Detroit, Michigan	1981
James H. Duncan	Chairman and Chief Executive Officer, First American Bank Corporation, Kalamazoo, Michigan	1981
Dean E. Richardson	Chairman, Manufacturers National Bank of Detroit, Detroit, Michigan	1982

Appointed by Board of Governors

Howard F. Sims	President, Sims-Varner Associates, Inc., Detroit, Michigan	1980
Herbert H. Dow	Director and Secretary, The Dow Chemical Company, Midland, Michigan	1981
Russell G. Mawby	President and Trustee, W. K. Kellogg Foundation, Battle Creek, Michigan	1982

District 8—ST. LOUIS

Class A

Donald N. Brandin	Chairman of the Board and Chief Executive Officer, The Boatmen's National Bank of St. Louis, St. Louis, Missouri	1980
George M. Ryrie	President, First National Bank & Trust Co., Alton, Illinois	1981
Donald L. Hunt	President, First National Bank of Marissa, Marissa, Illinois	1982

Class B

Ralph C. Bain	Vice President, Wabash Plastics, Inc., Evansville, Indiana	1980
Tom K. Smith, Jr.	St. Louis, Missouri	1981
Mary P. Holt	President, Clothes Horse, Little Rock, Arkansas	1982

Class C

		Term expires Dec. 31
William H. Stroube	Associate Dean of Faculty Programs, Department of Agriculture, Western Kentucky University, Bowling Green, Kentucky	1980
William B. Walton	Vice Chairman of the Board Emeritus, Holiday Inns, Inc., Memphis, Tennessee	1981
Armand C. Stalnaker	Chairman of the Board, General American Life Insurance Co., St. Louis, Missouri	1982

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank

Thomas E. Hays, Jr.	President and Chief Executive Officer, The First National Bank of Hope, Hope, Arkansas	1980
Gordon E. Parker	President and Chief Executive Officer, The First National Bank of El Dorado, El Dorado, Arkansas	1981
Shirley J. Pine	Speech Communication, University of Arkansas at Little Rock, Little Rock, Arkansas	1981
William H. Bowen	President and Chief Executive Officer, The Commercial National Bank of Little Rock, Little Rock, Arkansas	1982

Appointed by Board of Governors

Ronald W. Bailey	Executive Vice President and General Manager, Producers Rice Mill, Inc., Stuttgart, Arkansas	1980
G. Larry Kelley	President, Pickens-Bond Construction Co., Little Rock, Arkansas	1981
E. Ray Kemp, Jr.	Vice Chairman of the Board and Chief Administrative Officer, Dillard Department Stores, Inc., Little Rock, Arkansas	1982

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank

J. David Grissom	Chairman and Chief Executive Officer, Citizens Fidelity Bank and Trust Company, Louisville, Kentucky	1980
Fred B. Oney	President, The First National Bank of Carrollton, Carrollton, Kentucky	1981
Sister Eileen M. Egan	President, Spalding College, Louisville, Kentucky	1981
Howard Brenner	Vice Chairman of the Board, Tell City National Bank, Tell City, Indiana	1982

Appointed by Board of Governors

Richard O. Donegan	Senior Vice President and Group Executive, General Electric Company, Louisville, Kentucky	1980
Vacant		1981
James F. Thompson	Professor of Economics, Murray State University, Murray, Kentucky	1982

MEMPHIS BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
Charles S. Youngblood	President and Chief Executive Officer, First Columbus National Bank, Columbus, Mississippi	1980
Stallings Lipford	President, First-Citizens National Bank of Dyersburg, Dyersburg, Tennessee	1981
Bruce E. Campbell, Jr.	Chairman of the Board and President, National Bank of Commerce, Memphis, Tennessee	1981
Earl L. McCarroll	President, The Farmers Bank & Trust Co., Blytheville, Arkansas	1982
Appointed by Board of Governors		
Frank A. Jones, Jr.	President, Dietz Forge Company, Memphis, Tennessee	1980
Benjamin P. Pierce	President, Tyrone Hydraulics, Inc., Corinth, Mississippi	1981
Patricia W. Shaw	Senior Vice President and Assistant Secretary, Universal Life Insurance Company, Memphis, Tennessee	1982

District 9—MINNEAPOLIS

Class A		
James H. Smaby	President, Commercial National Bank and Trust Company, Iron Mountain, Michigan	1980
Zane G. Murfitt	President, Flint Creek Valley Bank, Philipsburg, Montana	1981
Henry N. Ness	Senior Vice President, The Fargo National Bank, Fargo, North Dakota	1982
Class B		
Donald P. Helgeson	Secretary and Vice President, Jack Frost, Inc., St. Cloud, Minnesota	1980
Russell G. Cleary	Chairman and President, G. Heileman Brewing Company, LaCrosse, Wisconsin	1981
Joe F. Kirby	Chairman, Western Surety Company, Sioux Falls, South Dakota	1982
Class C		
Stephen F. Keating	Minneapolis, Minnesota	1980
William G. Phillips	Chairman and Chief Executive Officer, International Multifoods, Minneapolis, Minnesota	1981
Sister Generose Gervais	Administrator, St. Mary's Hospital, Rochester, Minnesota	1982

HELENA BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank		
Harry W. Newlon	President, First National Bank, Bozeman, Montana	1980
Jase O. Norsworthy	President, The N.R.G. Company, Billings, Montana	1980
Lynn D. Grobel	President, First National Bank of Glasgow, Glasgow, Montana	1981
Appointed by Board of Governors		
Patricia P. Douglas	Fiscal Affairs Vice President, University of Montana, Missoula, Montana	1980
Norris E. Hanford	Fort Benton, Montana	1981

District 10—KANSAS CITY

Class A		
Wayne D. Angell	President, Council Grove National Bank, Ottawa, Kansas	1980
John D. Woods	Chairman and Chief Executive Officer, The Omaha National Bank, Omaha, Nebraska	1981
Howard K. Loomis	President, The Peoples Bank, Pratt, Kansas	1982
Class B		
James G. Harlow, Jr.	President and Chief Executive Officer, Oklahoma Gas and Electric Co., Oklahoma City, Oklahoma	1980
Alan R. Sleeper	Alden, Kansas	1981
Charles C. Gates	President and Chairman of the Board, Gates Rubber Company, Denver, Colorado	1982
Class C		
Joseph H. Williams	Chairman and Chief Executive Officer, The Williams Companies, Tulsa, Oklahoma	1980
Doris M. Drury	Professor of Economics, University of Denver, Denver, Colorado	1981
Paul H. Henson	Chairman, United Telecommunications, Inc., Kansas City, Missouri	1982

DENVER BRANCH

Appointed by Federal Reserve Bank		
William H. Vernon	Director, and Former Chairman and Chief Executive Officer, Santa Fe National Bank, Santa Fe, New Mexico	1980
Delano E. Scott	President and Chairman, The Routt County National Bank of Steamboat Springs, Steamboat Springs, Colorado	1980
Kenneth C. Naramore	President, Stockmen's Bank & Trust Company, Gillette, Wyoming	1981

Appointed by Board of Governors

		Term expires Dec. 31
Alvin F. Grospiron	Denver, Colorado	1980
Caleb B. Hurtt	President and Corporate Vice President, Martin Marietta Aerospace Corporation, Denver Division, Denver, Colorado	1981

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank

W. L. Stephenson, Jr.	Chairman and Chief Executive Officer, Central National Bank & Trust Co. of Enid, Enid, Oklahoma	1980
V. M. Thompson, Jr.	Chairman and Chief Executive Officer, Utica National Bank and Trust Co., Tulsa, Oklahoma	1980
J. A. Maurer	Chairman, Security National Bank & Trust Co., Duncan, Oklahoma	1981

Appointed by Board of Governors

Samuel R. Noble	Chairman of the Board, Noble Affiliates, Inc., Ardmore, Oklahoma	1980
Christine H. Anthony	Oklahoma City, Oklahoma	1981

OMAHA BRANCH

Appointed by Federal Reserve Bank

F. Phillips Giltner	President, First National Bank of Omaha, Omaha, Nebraska	1980
W. W. Cook, Jr.	President, Beatrice National Bank and Trust Company, Beatrice, Nebraska	1981
Joe J. Huckfeldt	President, Gering National Bank and Trust Company, Gering, Nebraska	1981

Appointed by Board of Governors

Robert G. Lueder	President, Lueder Construction Company, Omaha, Nebraska	1980
Gretchen S. Pullen	Chairman of the Board, Swanson Enterprises, Inc., Omaha, Nebraska	1981

District 11—DALLAS

Class A

Frank Junell	Chairman of the Board, The Central National Bank of San Angelo, San Angelo, Texas	1980
Lewis H. Bond	Chairman of the Board and Chief Executive Officer, Texas American Bancshares Inc., Ft. Worth, Texas	1981
John P. Gilliam	President and Chief Executive Officer, First National Bank in Valley Mills, Valley Mills, Texas	1982

		Term expires Dec. 31
Class B		
Kent Gilbreath	Professor of Economics, Department of Economics and Finance, Baylor University, Waco, Texas	1980
J. Wayland Bennett	Charles C. Thompson Professor of Agricultural Finance and Associate Dean, College of Agricultural Sciences, Texas Tech University, Lubbock, Texas	1981
Robert D. Rogers	President, Texas Industries, Inc., Dallas, Texas.	1982
Class C		
Irving A. Mathews	Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Texas	1980
Gerald D. Hines	Owner, Gerald D. Hines Interests, Houston, Texas	1981
Margaret S. Wilson	Chairman of the Board and Chief Executive Officer, Scarbroughs Stores, Austin, Texas	1982

EL PASO BRANCH

Appointed by Federal Reserve Bank		
Claude E. Leyendecker	President, Mimbres Valley Bank, Deming, New Mexico	1980
Arnold B. Peinado, Jr.	Partner, AVC Development, El Paso, Texas	1981
Ernest M. Schur	Chairman of the Executive Committee, The First National Bank of Odessa, Odessa, Texas	1981
Arthur L. Gonzales	Chairman of the Board and Chief Executive Officer, First City National Bank of El Paso, El Paso, Texas	1982
Appointed by Board of Governors		
Chester J. Kesey	C. J. Kesey Enterprises, Pecos, Texas	1980
Josefina A. Salas-Porras	Executive Director, BI Language Services, El Paso, Texas	1981
A. J. Losee	Shareholder, Losee, Carson, & Dickerson, Professional Association, Artesia, New Mexico	1982

HOUSTON BRANCH

Appointed by Federal Reserve Bank		
Raymond L. Britton	Labor Arbitrator & Professor of Law, University of Houston, Bates College of Law, Houston, Texas	1980
John T. Cater	President, Bank of the Southwest National Association, Houston, Texas	1981
Ralph E. David	President, First Freeport National Bank, Freeport, Texas	1981
Will E. Wilson	President and Chief Executive Officer, First Security Bank of Beaumont, N.A., Beaumont, Texas	1982

Appointed by Board of Governors

		Term expires Dec. 31
Gene M. Woodfin	Chairman of the Board and Chief Executive Officer, Marathon Manufacturing Company, Houston, Texas	1980
George V. Smith, Sr.	President, Smith Pipe & Supply, Inc., Houston, Texas	1981
Jerome L. Howard	Chairman of the Board and Chief Executive Officer, Mortgage & Trust, Inc., Houston, Texas	1982

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank

John H. Garner	President and Chief Executive Officer, Corpus Christi National Bank, Corpus Christi, Texas	1980
John H. Holcomb	Owner-Manager, Progreso Haciendas Company, Progreso, Texas	1981
Charles E. Cheever, Jr.	President, Broadway National Bank, San Antonio, Texas	1981
George Brannies	Chairman of the Board and President, The Mason National Bank, Mason, Texas	1982

Appointed by Board of Governors

Lawrence L. Crum	Professor of Banking and Finance, The University of Texas at Austin, Austin, Texas	1980
Carlos A. Zuniga	Partner, Zuniga Freight Services, Inc., Laredo, Texas	1981
Pat Legan	Owner, Legan Properties, San Antonio, Texas	1982

District 12—SAN FRANCISCO

Class A

Ole R. Mettler	President and Chairman, Farmers & Merchants Bank of Central California, Lodi, California	1980
Robert A. Young	Chairman and President, Northwest National Bank, Vancouver, Washington	1981
Frederick G. Larkin, Jr.	Chairman of the Executive Committee, Security Pacific National Bank, Los Angeles, California	1982

Class B

J. R. Vaughan	Partner, Richards, Watson, Dreyfuss & Gershon, Los Angeles, California	1980
Malcolm T. Stamper	President, The Boeing Company, Seattle, Washington	1981
Clair L. Peck, Jnr.	Chairman of the Board, C. L. Peck Contractor, Los Angeles, California	1982

Class C

		Term expires Dec. 31
Cornell C. Maier	Chairman, President and Chief Executive Officer, Kaiser Aluminum & Chemical Corp., Oakland, California	1980
Alan C. Furth	President, Southern Pacific Company, San Francisco, California	1981
Caroline L. Ahmanson	Chairman of the Board, Caroline Leonetti, Ltd., Beverly Hills, California	1982

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank

James D. McMahon	President, Santa Clarita National Bank, Newhall, California	1980
Harvey J. Mitchell	President, First National Bank of San Diego County, Escondido, California	1981
Bram Goldsmith	Chairman of the Board, City National Bank, Beverly Hills, California	1982
Fred W. Andrew	President and Chief Operating Officer, Superior Farming Company, Bakersfield, California	1982

Appointed by Board of Governors

Lola M. McAlpin-Grant	Assistant Dean, Loyola Law School, Los Angeles, California	1980
Harvey A. Proctor	Chairman of the Board, Southern California Gas Company, Los Angeles, California	1981
Togo W. Tanaka	President, Gramercy Enterprises, Los Angeles, California	1982

PORTLAND BRANCH

Appointed by Federal Reserve Bank

Kenneth Smith	General Manager, The Confederated Tribes of Warm Springs, Warm Springs, Oregon	1980
Jack W. Gustavel	President and Chief Executive Officer, First National Bank of North Idaho, Coeur d'Alene, Idaho	1981
Robert F. Wallace	Chairman of the Board, First National Bank of Oregon, Portland, Oregon	1981
Merle G. Bryan	President, Forest Grove National Bank, Forest Grove, Oregon	1982

Appointed by Board of Governors

Loran L. Stewart	Director, Bohemia, Inc., Eugene, Oregon	1980
Jean Mater	Vice President, Mater Engineering, Ltd., Corvallis, Oregon	1981
Phillip W. Schneider	Northwest Regional Executive, National Wildlife Federation, Portland, Oregon	1982

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Mary S. Knox	Chairman, Idaho State Bank, Glenns Ferry, Idaho	1980
Spencer F. Eccles	President and Chief Operating Officer, First Security Corporation, Salt Lake City, Utah	1981
David P. Gardner	President, University of Utah, Salt Lake City, Utah	1981
Fred H. Stringham	President, Valley Bank and Trust Company, South Salt Lake, Utah	1982

Appointed by Board of Governors

		Term expires Dec. 31
J. L. Terteling	President, The Terteling Company, Inc., Boise, Idaho	1980
Wendell J. Ashton	Publisher, Deseret News Publishing Company, Salt Lake City, Utah	1981
Robert A. Erkins	Geothermal Agri/Aquaculturist, White Arrow Ranch, Bliss, Idaho	1982

SEATTLE BRANCH

Appointed by Federal Reserve Bank

		Term expires Dec. 31
Rufus C. Smith	Chairman Emeritus, The First National Bank of Enumclaw, Enumclaw, Washington	1980
Douglas S. Gamble	President and Chief Executive Officer, Pacific Gamble Robinson Co., Seattle, Washington	1981
C. M. Berry	President, Seattle-First National Bank, Seattle, Washington	1981
Donald L. Mellish	Chairman of the Board, National Bank of Alaska, Anchorage, Alaska	1982

Appointed by Board of Governors

		Term expires Dec. 31
Virginia L. Parks	Vice President for Finance and Treasurer, Seattle University, Seattle, Washington	1980
George H. Weyerhaeuser	President and Chief Executive Officer, Weyerhaeuser Company, Federal Way, Washington	1981
Merle D. Adlum	President, Maritime Trades Department, Puget Sound District Council, AFL/CIO, Seattle, Washington	1982

Presidents and Vice Presidents

Federal Reserve **Bank** or branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris	Daniel Aquilino [1]	R. W. Eisenmenger [1]
	James A. McIntosh	T. F. Hunt, Jr.[1]	Niels O. Larsen [1]
		Richard A. Walker [1]	T. E. Cimeno, Jr.
		F. K. Cummings	Norman S. Fieleke
		James W. Grieb	Luther M. Hoyle, Jr.
		Kenneth H. Kulesza	Robert J. Listfield
		Stephen K. McNees	Alicia H. Munnell
		D. A. Pelletier	Richard E. Randall
		Laurence H. Stone	Walter T. Sullivan
		Richard F. Syron	Thomas Vangell
		Herbert F. Wass	
New York	Anthony M. Solomon	Peter Fousek [1]	Ronald B. Gray [1]
	T. M. Timlen, Jr.	P. B. Henderson, Jr.[1]	Scott E. Pardee [1]
		Thomas C. Sloane [1]	Peter D. Sternlight [1]
		James O. Aston	Peter Bakstansky
		Suzanne Cutler	Chester B. Feldberg
		Henry S. Fujarski	Margaret Greene
		Whitney R. Irwin	Roger M. Kubarych
		Edwin R. Powers	A. M. Puckett
		Geri M. Riegger	Irwin D. Sandberg
		F. C. Schadrack, Jr.	Robert C. Thoman
		Richard Vollkommer	H. W. Whiteman, Jr.
		H. David Willey	
Buffalo	....	John T. Keane	
Philadelphia	David P. Eastburn	K. G. Adack [1]	Edward G. Boehne [1]
	Richard L. Smoot	John D. Johnson [1]	Thomas K. Desch
		Peter M. DiPlacido	Guy H. Edwards
		James F. Gaylord	Hiliary H. Holloway
		A. A. Kudelich	Donald J. McAneny
		Donald J. Mullineaux	L. C. Murdoch, Jr.
		William H. Stone, Jr.	Ronald D. Watson
Cleveland	Willis J. Winn	John M. Davis, Jr.[1]	W. H. Hendricks [1]
	W. H. MacDonald	George E. Booth, Jr.	Randolph G. Coleman
		Harry W. Huning	R. Thomas King
		James H. Nash, Jr.	T. E. Orminston, Jr.
		Lester M. Selby	Harold J. Swart
		Donald G. Vincel	
Cincinnati	....	Robert E. Showalter [1]	Charles A. Cerino
Pittsburgh	....	Donald C. Benjamin	
Richmond	Robert P. Black	Welford S. Farmer [1]	James Parthemos [1]
	Jimmie R. Monhollon	John F. Rand [1]	Joseph F. Viverette [1]
		Elizabeth W. Angle	L. W. Bostian, Jr.
		J. A. Broaddus, Jr.	Timothy Q. Cook
		George B. Evans	Roy L. Fauber
		William C. Glover	R. B. Hollinger, Jr.
		Richard L. Hopkins	William D. Martin III
		A. V. Myers, Jr.	C. D. Porter, Jr.
		Aubrey N. Snellings	Andrew L. Tilton
		James F. Tucker	

For notes see last page of listing.

Presidents and Vice Presidents—Continued

Federal Reserve **Bank** or branch	President First Vice President	Vice Presidents	
Baltimore	...	R. D. McTeer, Jr.[1]	William E. Pascoe III
		Gerald L. Wilson	
Charlotte	...	Stuart P. Fishburne[1]	Boyd Z. Eubanks
		Thomas E. Snider	
Culpeper[2]	...	John G. Stoides	A. D. Tinkelenberg
Atlanta	William F. Ford	Harry Brandt[1]	George C. Guynn[1]
	Robert P. Forrestal	Billy H. Hargett[1]	Arthur H. Kantner[1]
		Brown R. Rawlings[1]	W. R. Caldwell
		William N. Cox III	W. M. Davis
		Delmar Harrison	Robert E. Heck
		John R. Kerr	William G. Pfaff
		H. Terry Smith	John M. Wallace
		Edward Willingham	
Birmingham	...	Hiram J. Honea	
Jacksonville	...	Charles D. East	
Miami	...	F. J. Craven, Jr.	
Nashville	...	Jeffrey J. Wells	
New Orleans	...	James D. Hawkins	
Chicago	Robert P. Mayo	Brian Carey[1]	James R. Morrison[1]
	Daniel M. Doyle	Karl A. Scheld[1]	Harry S. Schultz[1]
		Carl E. Vander Wilt[1]	Richard P. Anstee
		Paul J. Bettini	Harris C. Buell, Jr.
		George W. Cloos	Franklin D. Dreyer
		Robert M. Fitzgerald	Charles W. Furbee
		Daniel P. Kinsella	Joseph C. Kvasnicka
		Robert A. Ludwig	William T. Newport
		Dorothy M. Nichols	Louis J. Purol
		William Rooney	R. M. Scheider
		Ruby L. Sloan	Adolph J. Stojetz
		Ruth V. Vilona	Eugene J. Wagner
		Patricia W. Wishart	Allen G. Wolkey
Detroit	...	William C. Conrad[1]	F. S. Dominick
St. Louis	Lawrence K. Roos	Anatol B. Balback[1]	Joseph P. Garbarini[1]
	Donald W. Moriarty, Jr.	Bradley G. Glass[1]	F. G. Russell, Jr.[1]
		Harold E. Uthoff[1]	Ruth A. Bryant
		Carol B. Claypool	Charles R. Halbrook
		James R. Kennedy	William J. Sneed
		Warren G. Snover	Robert W. Thomas
		Delmer Weisz	
Little Rock	...	John F. Breen	
Louisville	...	Donald L. Henry[1]	
Memphis	...	Robert E. Matthews	

For notes see last page of listing.

Presidents and Vice Presidents—Continued

Federal Reserve **Bank** or branch	President First Vice President	Vice Presidents	
Minneapolis	E. Gerald Corrigan Thomas E. Gainor	Melvin L. Burstein [1]	John P. Danforth [1]
		L. W. Fernelius [1]	J. A. MacDonald [1]
		Sheldon L. Azine	Lester G. Gable
		Phil C. Gerber	Gary P. Hanson
		Bruce J. Hedblom	Douglas R. Hellweg
		Howard L. Knous	David R. MacDonald
		Clarence W. Nelson	Arthur J. Rolnick
		James R. Taylor	R. W. Worcester
Helena	....	Betty J. Lindstrom	
Kansas City	Roger Guffey Henry R. Czerwinski	James R. Bell [1]	W. T. Billington [1]
		James R. Bowen [1]	Thomas E. Davis [1]
		James A. Cacy	Cecil B. Foley
		Jay K. Mast	G. H. Miller, Jr.
		M. L. Mothersead	Barry K. Robinson
		Robert E. Scott	Jerry D. Shreeves
		Donald A. Slover	
Denver	....	Wayne W. Martin [1]	James F. O'Meara
Oklahoma City	....	William G. Evans	
Omaha	....	Robert D. Hamilton	
Dallas	Ernest T. Baughman Robert H. Boykin	Joseph E. Burns [1]	G. C. Cochran III [1]
		Harry E. Robinson [1]	Tony J. Salvaggio [1]
		C. J. Pickering	Larry J. Reck
		George F. Rudy	Neil B. Ryan
		E. W. Vorlop, Jr.	
El Paso	....	Joel L. Koonce, Jr.	
Houston	....	J. Z. Rowe	
San Antonio	....	Carl H. Moore	
San Francisco	John J. Balles John B. Williams	John J. Carson [1]	Kenneth A. Grant [1]
		Michael W. Keran [1]	Donald V. Masten [1]
		Kent O. Sims [1]	Joseph R. Bisignano
		William M. Burke	Robert C. Dietz
		H. Peter Franzel	George P. Galloway
		Harry W. Green	Warren H. Hutchins
		Henry B. Jamison	Hector M. Martin
		Rix Maurer, Jr.	Michael J. Murray
		Louis E. Reilly	Eugene A. Thomas
		Thomas Warren	
Los Angeles	....	Richard C. Dunn [1]	James M. Davis
Portland ...	....	Angelo S. Carella	
Salt Lake City	....	A. Grant Holman	
Seattle	....	Gerald R. Kelly [1]	

1. Indicates Senior Vice Presidents.
2. Culpeper Center is not considered a branch.

Conference of Presidents

The presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. At a meeting held September 18-19, 1979, Ernest T. Baughman, President of the Federal Reserve Bank of Dallas, was elected Chairman, and Roger Guffey, President of the Federal Reserve Bank of Kansas City, was elected Vice Chairman, for 1980. Martha T. Sukovich of the Federal Reserve Bank of Dallas was appointed Secretary, and Richard K. Rasdall, Jr., of the Federal Reserve Bank of Kansas City was appointed Assistant Secretary.

Conference of First Vice Presidents

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet from time to time, primarily for the consideration of operational matters. On September 20, 1979, Robert H. Boykin, First Vice President of the Federal Reserve Bank of Dallas, was elected Chairman, and Henry R. Czerwinski, First Vice President of the Federal Reserve Bank of Kansas City, was elected Vice Chairman of the conference for 1980. Martha T. Sukovich and Richard K. Rasdall, Jr., were appointed Secretary and Assistant Secretary respectively.

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